THE FREEMAN

IDEAS ON LIBERTY

Why War?

Social Security, the Welfare State, and the Market

The Egg and I

Mother's Little Helper

The New Forest

APRIL 1994

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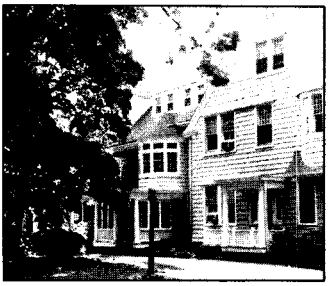
1994 Summer Seminars At FEE



For the 32nd consecutive summer, FEE will conduct its noted seminars in the freedom philosophy and the economics of a free society. Here, in the company of like-minded individuals, with experienced discussion leaders, and in a setting ideal for the calm exchange of ideas, is an opportunity for those who believe that the proper approach to economic problems is through the study of individual human action. These seminars continue to attract individuals from all walks of life who seek a better understanding of the principles of a free society and are interested in exploring ways of presenting the case more convincingly.

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Individuals, companies, and foundations interested in furthering this educational enterprise are invited to attend or otherwise investigate the program and to assist with the financing of the fellowship grants.

The formal announcement, giving details of the seminars as well as information about fellowships, will be sent immediately on request.

First session: July 11-16, 1994

Second session: August 15-20, 1994

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President: Hans F. Sennholz, Ph.D.

Managing Editor: Beth A. Hoffman
Guest Editor: William H. Peterson

Editor Emeritus: Paul L. Poirot, Ph.D.

Review Editor: Robert Batemarco, Ph.D.

Associate Editors: John Chamberlain
Bettina Bien Greaves, Soc. Sci. D.
Rev. Edmund A. Opitz

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PERSPECTIVE

The Market's Easy Touch

A few years back, yet another phenomenon emerged to lacerate the sensibilities of the people in the inner cities: Radios blaring at all hours of the day and night. In addition to the obvious assault on the quality of life in the poorer neighborhoods, the maximum-volume radios aggravated racial tensions for the simple reason that most of the radio-owners were minority youths in their teens and twenties. In my own neighborhood—Spanish Harlem in New York City—derogatory comments about the traditionally out-of-doors Hispanic culture abounded.

People of all persuasions, especially older folk, began to fight back. Soon the city-run subway and surface transit systems sported large red-on-white signs, "No Radio Playing." Then, police were authorized to seize radios while they were blaring (as evidence, not civil forfeiture). Some folks took on an us-or-them attitude towards the minority youths that were typically at the center of the problem, and race relations took a giant step backwards.

Along came SONY, and with its well-known ingenuity and inventiveness, a new product was placed on the market: the Walkman. Soon, blaring radios became a thing of the past as people of all ages and ethnic backgrounds enjoyed music on trains, buses, and streets alike, while walking, riding, or simply sitting on park benches. Users of this product clearly enjoyed having their immediate surroundings suffused with music, possible before the Walkman only with the offensive maximum-volume radios. SONY did what it does best: It identified a real need—environment-suffusing music which doesn't disturb the neighbors—and filled it with a new product.

Today, blaring radios are a rarity; youths and older folk, minorities and whites, all use Walkmans or the many imitations that the market has spawned. And, the racially tinged angry comments of yesteryear have been proven wrong. SONY's success shows the difference between the easy touch of the market response to social problems and the

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heavy-handed state response to quality-of-life issues. SONY has been rewarded with profits for its genteel product. And, "Walkman" is now an entry in the 1993 (10th) edition of the Merriam-Webster dictionary —just see page 1329!

—JOSEPH S. FULDA

(Dr. Fulda, a contributing editor of *The Freeman*, is the author of *Are There Too Many Lawyers? And Other Vexatious Questions*, available from FEE.)

Reinventing Government?

My wife and I recently had an experience that suggests problems for the much-touted attempt to reinvent government. Because my wife is a foreign national, we were required to register with the Immigration and Naturalization Service (INS). If inspiring vision statements and glossy reports could make government agencies responsive to their "clients" our experience with the INS would have been far different.

A few weeks before our marriage we obtained a stack of forms with instructions on how to fill them out. The large number of barely intelligible questions attempting to determine whether my wife was a prostitute or had engaged in acts of genocide was a harbinger of the things to come. But despite these initial difficulties, we were able to complete everything in full and report as instructed to the Los Angeles INS office.

The agency's vision statement, visible upon entering, is an impressive list of adjective-laden sentences. It begins by proclaiming the agency's commitment to quality service and ends by stating, in large block letters that "well-trained" information officers will, above all else, "create an authentic and compassionate culture treating each person with respect and dignity."

Judging from the information officers that "assisted" us, it seems that INS employees are working overtime to violate every edict laid out in their pledge.

Rude is far too weak a word to describe the way our officer treated us. Upon receiving the packet of paperwork we had spent several weeks completing, the agent proceeded to throw aside with unnecessary force what he considered superfluous. He refused to answer the questions I politely asked, only rebuffing me with "I'll tell you what you don't have and then tell you to leave." After shuffling through the dishevelled stack of forms, he grudgingly gave them his stamp of approval. At no time did our "public servant" make eye contact with us.

At yet another desk, another INS official attempted to intimidate my wife with insulting questions, such as "Are you sure you know your name?" and, "Well, why don't you sign it then?" As we sat and waited, we watched as one "customer" after another left the interview with a deep scowl. The motives of our taxpayer-supported officials suddenly became transparent. As unaccountable members of the civil service, they could enjoy exercising petty power over those who had no choice but to submit.

Whether all government bureaus exhibit such astounding contradictions between vision and reality is a question I cannot answer. I can state with confidence, however, that it would be impossible for rudeness of the type we experienced at the INS to persist in any organization subject to competition. Such behavior would last no longer than it takes customers to walk out the door.

America's infatuation with the idea that we can somehow reform government with the stroke of a pen ignores the role of incentives and disincentives in shaping behavior. Creating empty mission statements does nothing to motivate otherwise unmotivated personnel. A lack of accountability and proper incentives to reward diligence creates a situation in which employees have difficulty maintaining any sense of respect for their colleagues, their clients, or themselves.

I can only hope that the emptiness of the INS vision statement is not repeated on a larger scale by the "reinvention" of government. But I am not optimistic.

—JEFFREY G. LEE

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THE FREEMAN
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THE ECONOMIC WAY OF THINKING

PART 7

by Ronald Nash

In previous parts of this series, I explained the importance of becoming familiar with a number of commonsense principles that make up what is often called the economic way of thinking. Principles already examined include the importance of incentives and the fact that everything has a cost. This month's principle introduces us to the unavoidable fact of economic uncertainty.

The Reason for Economic Uncertainty

We seldom know enough about individual persons, even people especially close to us, to predict with any certainty what choices they will make among the various options open to them. We may know that a particular friend ranks tickets to Chicago Cubs baseball games very high in his personal scale of values. But we may not know how smitten he has become with the young lady he met yesterday and how suddenly the prospect of a picnic with his new friend has become more important than watching the Cubs play the Cardinals.

The major reason why certainty in economics, indeed, why certainty with regard to human action, is impossible is the fact that all economic value is subjective. The value that different people place upon different economic goods, upon various choices open to them, varies from person to person. It also changes for the same person at different times. People's value scales are personal and different.

People value things differently for a variety of reasons which include: (1) different tastes; (2) different perceptions of available opportunities; (3) different interpretations of other people's actions; (4) different interpretations of current events; (5) different expectations about future events and people's future actions; and (6) different degrees of alertness to previously unrecognized opportunities.

Because economic value is subjective or imputed value, it follows that economic knowledge is always incomplete, limited, and fallible. None of us can ever know all that we need to know about the subjective value that other people impute to their options. Indeed, we have enough problems attaining this kind of knowledge about our-

Dr. Ronald Nash is a contributing editor of The Freeman. *He is professor of philosophy and theology at Reformed Theological Seminary in Orlando, Florida. His many books include* The Closing of the American Heart: What's Really Wrong with America's Schools *and* Poverty and Wealth: Why Socialism Doesn't Work, *both published by Probe Books in Richardson, Texas.*

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selves. None of us can attain perfect knowledge about the future. While it is often possible to make some estimates of what will happen, certain knowledge about the future is unattainable. Long-time investors in the stock market will vouch for this, as will anyone who has ever tried to start a business.

One corollary of our limited knowledge about the future is the possibility that the economic value of things will change in unpredictable ways. Natural catastrophes may make some resource more or less valuable. Human tastes, customs, and fashions may change. New highways may change traffic flows. Huge new shopping malls may lead people to develop new shopping habits. Inner cities may decay as people move to the suburbs.

In all such changes, some people will win and others will lose. The scarcity of information means that economic decisions must always be made with some caution and tentativeness. No one, not even the largest and previously most successful businesses, can be completely sure what the future holds for them. Each morning, when the owners of any enterprise open for business, they can never be certain what the market will do to them that day. After what is often a huge investment of money, time, and labor, it is always possible that the business person might discover on a certain day that *no one* was interested in what he had to offer. The frightening prospect is that the Maytag repairman of the familiar television commercials could be any one of us.

But isn't everything said thus far just plain old common sense? It is, save for all the people who seem to forget the lessons in this month's principle, usually at the worst possible time. What is most interesting about the fact of economic uncertainty is its contemporary relevance for several theoretical issues in economics.

Economic Uncertainty and Entrepreneurship

An entrepreneur is someone who believes he sees an opportunity that others have not yet recognized. The key to understanding economic competition is recognizing that no one knows everything, different people have different information. One thing the market process does is gather and communicate information about the most important wants of buyers and sellers. As astute entrepreneurs pay attention to information provided by changing market prices, they often come to recognize new opportunities. These new opportunities may take the form of new products or services that consumers want or of new ways of using scarce resources. As entrepreneurs recognize hitherto unseen opportunities and assume risks in an effort to maximize their own well-being by taking advantage of those opportunities, their actions result in significant benefits to large numbers of people through the creation of new jobs along with the provision of new goods or services.

Economic Uncertainty and Socialism

Without question, the most significant consequences of economic uncertainty affect socialism. Socialism is an economic system in which commands flow downward from the small number of economic planners at the top. In order for such a system to work, the planners at the top must have knowledge about what goods exist and in what quantity and location, and also about what economic goods consumers want and at what price.

The big problem for socialist planners is the fact that it is the market that supplies this information and socialism is incompatible with markets. The most important way in which people can acquire knowledge about the subjective value that individuals place upon various economic goods is to study changing prices. Prices are determined as prospective participants in economic exchanges buy or refuse to buy in response to their personal assessment of their opportunities. As countless individuals, each acting in line with their subjective value scales, exchange units of goods, services, and money, market prices evolve.

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The degree to which an individual wants some good or service will have an obvious effect on the price he will pay to acquire it. The more he wants something, the higher price he will be willing to pay. Since the key to understanding the wants and preferences of consumers is market prices and since market prices are unavailable in a system like socialism that abolishes markets, the socialist planners are in obvious trouble when it comes to supplying the wants and needs of consumers. Of course, when economic socialism is married to political tyranny, the desires of the individuals forced to live under such a system do not matter.

But economic planners in a socialist system have other problems. They are cut off from the information required to set rational prices for the goods they sell. Imagine that you're the manager of a factory operating under a socialist system. Suppose your factory produces 1,000 widgets a day. One of your problems is to decide what price to charge for your widgets. But to do this rationally, in a non-arbitrary manner, you must first have access to various kinds of information. You can hardly know what selling price to place on each widget until you first know how much it cost to make it. But under socialism, such information is not available since the government owns the land, the raw materials, the machinery, the factory, the utilities, and everything else. Under such a system, it is impossible to know the cost of producing economic goods. And if you cannot know the cost, then you cannot know what price to offer the good at. What industries located in socialist states typically do is investigate what similar products are selling for in non-socialist economies.

Economic Uncertainty and Capitalism

Rational economic activity is impossible without certain kinds of information. Access to that information is hindered by the fact that economic value is a function of the subjective value that individual people impute to economic goods. One of the more important functions of a market system is the steady supply of information it provides about these subjective preferences by means of rising and falling prices. One of the ironies of socialism is the fact that socialists need capitalism to survive. Once we recognize all this, we can more easily understand not only why socialism does not work, but also why it cannot work. □

New!

A Classic Reprint from FEE . . .

Essentials of Economics

by Faustino Ballvé

Subtitled *A Brief Survey of Principles and Policies*, Dr. Ballvé's *Essentials of Economics* is a concise, authoritative primer of economics written in language easily understandable by the intelligent layman.

Dr. Ballvé, a native of Spain, emigrated to Mexico in 1943, where he wrote *Diez lecciones de economía*, which was subsequently translated into French as *L' Économie Vivante.* The English-language edition, translated by Arthur Goddard and published by Van Nostrand in 1963, was reprinted by The Foundation for Economic Education in 1969.

In reviewing *Essentials* for *The Freeman*, John Chamberlain advised readers: "If you want instant enlightenment, Henry Hazlitt's *Economics in One Lesson* is still the desired text. If you want enlightenment in great depth, there is Mises' *Human Action.* But if you are looking for something in the 'in-between' category, *Essentials of Economics* is your meat."

109 pages, $9.95 paperback

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WHY WAR?

by Bettina Bien Greaves

"There never was a good war or a bad peace."
—BENJAMIN FRANKLIN in a letter to
Josiah Quincy, September 11, 1773.

At 7:55 A.M. Hawaii time on December 7, 1941, the first Japanese bombs fell on the U.S. Fleet at Pearl Harbor in Hawaii. At the time, the United States was officially neutral. Japan was attacking a peaceful country without warning. People in the United States were outraged. Their immediate response was anger; they were more than eager to avenge the attack and go to war against Japan. As Japan was allied by treaty with Germany, Germany soon declared war against the United States.

Within a few days the United States found herself allied with Great Britain and the U.S.S.R., which had been attacked by Germany on June 22, 1941, and at war with both Japan and Germany. (France had been defeated earlier by Germany and was out of the war.) What had been a European war became almost overnight a world war. The United States would soon be fighting Germany in the Atlantic, Europe, and Africa, and Japan in the Pacific and southeast Asia.

In spite of our Neutrality Act, many people in the United States had been emotionally anti-Nazi for some time because of Hitler's ruthless invasions of neutral countries in Europe and his treatment of the Jews. Because of Japan's war in China and the atrocities her soldiers were inflicting on Chinese civilians, many Americans were anti-Japanese even before Pearl Harbor. Yet until the attack, the majority of the people in this country did not want the United States to become militarily involved. They did not believe the war in Europe was our war.

As a matter of fact, President Roosevelt had won election to a third term in 1940 by appealing to this sentiment and promising that he would not take us into war. He had vowed that we would "not participate in foreign wars," that he would "not send our Army, naval or air forces to fight in foreign lands outside of the Americas, except in case of attack," and he had told America's mothers and fathers "again and again" that their boys were "not going to be sent into any foreign wars." Yet in just over a year, FDR was standing before Congress and asking for a declaration of war.

It is easy to blame the Pearl Harbor attack on Emperor Hirohito and the Japanese militants under the leadership of Prime Minister Tojo. It is easy to say that Hitler was a "monster" and that he and his evil regime had to be destroyed if civilization was to survive. It is even easy to blame Roosevelt,

Mrs. Greaves, a long-time member of FEE's senior staff, is now its Resident Scholar. Her late husband, Percy L. Greaves, Jr., served as Chief of the Minority Staff to the Joint Congressional Committee on the Investigation of the Pearl Harbor Attack (1945–1946). Mrs. Greaves is completing the book he was writing when he died, The Seeds and Fruits of Infamy.

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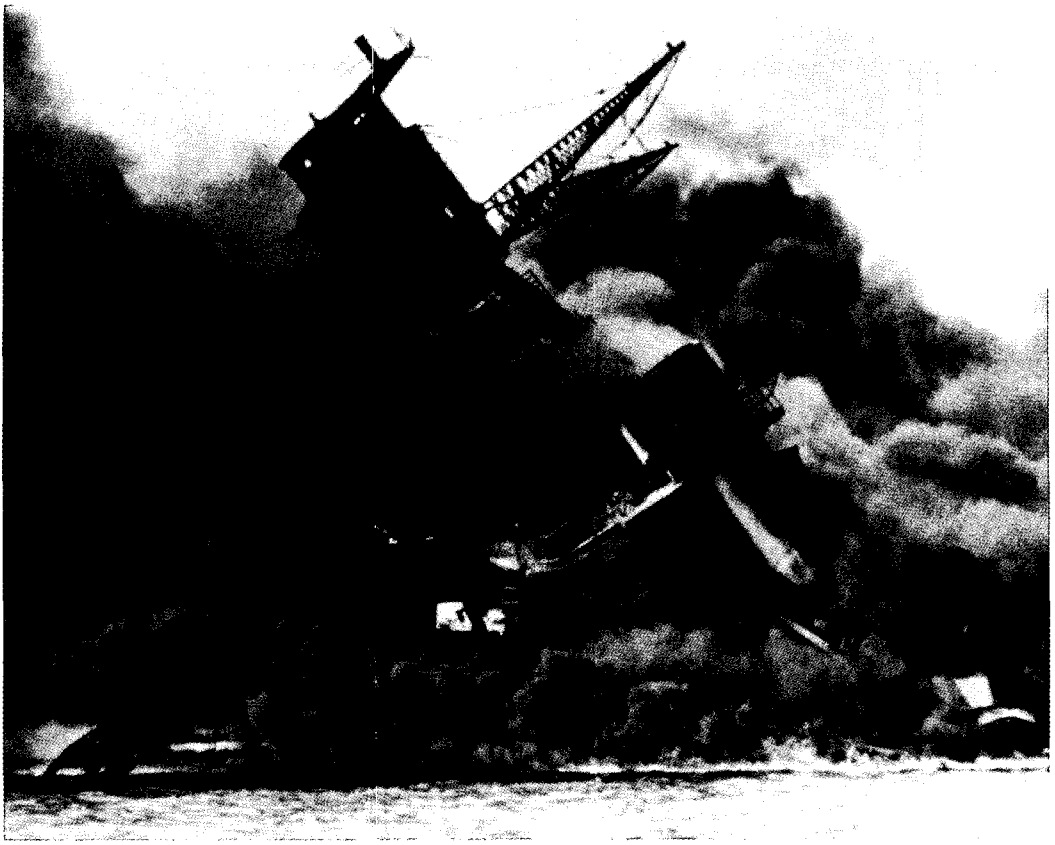

THE NAVAL INSTITUTE

The battleship **Arizona**, *sunk during the attack on Pearl Harbor, December 7, 1941.*

as many have, for dragging the United States into the conflict against the wishes of the people. But the reasons why Germany, Japan, and the United States went to war are not that simple.

Europe had been on the brink of war for several years. But the war did not actually start until September 1, 1939. Why did Hitler march into Poland, then, in spite of the fact that he knew England and France might declare war against him to honor their pledge to Poland? And why did Hitler attack the U.S.S.R. in June 1941, in spite of the fact that he knew Russia's vast expanses and rigorous winters could defeat almost any invading force, as they had Napoleon's, and in spite of the fact that it would mean fighting on two fronts?

Japan's attack on Pearl Harbor also went against all reason and logic. The United States was much larger and more powerful than Japan, and Japan could not realistically expect to win.

Why war? Begin with the fact that history is man-made. Everything that has ever been thought, done, and accomplished was performed by individuals. And men are ruled by ideas. To understand the causes of war, therefore, the historian must not only explore the facts, select those that are significant, weigh and interpret their relative importance in the light of all available knowledge, but he must also analyze them in the light of sound logic and the principles of human action. The historian must interpret the actions of the individuals involved on the basis of their ideas and values. He must consider the effects of their actions in the light of various theories. Only in this way can an historian hope to explain the origins of war.

The Liberal Social Philosophy

The eighteenth century's Age of Enlightenment brought great advances in all fields

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of human knowledge. The liberal, pro-freedom philosophers, and the classical economists laid the groundwork for individual freedom and economic prosperity. As a result of their teachings, many old feudalistic and mercantilist laws were repealed, opening the way to more efficient large-scale agricultural and industrial production. More and more the governments of the Western world were limited to the protection of life, property, and the equal rights of individuals. In line with the classical liberal philosophy, individuals were generally left free to pursue their own goals, so long as they did not interfere with the equal rights of others. At the same time individuals were held responsible for providing for themselves and their families.

As restrictions and regulations were removed, the initiative of individuals was unleashed. Freedom to experiment, innovate, invent, save, and invest led to a veritable "industrial revolution." Productivity rose. Production and trade expanded. This trend continued in the nineteenth century. Free traders Cobden and Bright, with an assist from the Irish Potato Famine, persuaded the British Parliament to repeal the Corn Laws, the tariffs on imported grain. Free trade lowered the price of bread and improved the diet of the poor. Living standards improved. With more to eat, people lived longer and healthier lives. The population increased.

Thanks to improved transportation and communication, the world grew smaller. Thousands took advantage of their new freedom to move; many migrated from relatively poor and crowded England, Germany, Scandinavia, Italy, and eastern Europe to the wide open spaces of the Western hemisphere, especially the United States, and Australia. The division of labor developed internationally. Production was shifted to areas where the marginal productivity per worker was greater. New trade channels were developed.

Trade brought peoples in different parts of the world closer together. It fostered mutual respect and friendship. People came to realize that voluntary transactions brought gains to both parties and benefits to nation and state. The way to wealth was through trade, not conquest or war. Thanks to the understanding developed by the liberal philosophers and classical economists, peace and good will reigned in most of the world throughout the nineteenth century. Nations could safely renounce economic nationalism and war.

The Anti-Free Trade Philosophy

Toward the end of the nineteenth century, the philosophy of individual freedom, individual rights, and individual responsibility that had paved the way for economic development and prosperity, began to give way to a different philosophy. People took economic progress for granted; they didn't realize the connection between their well-being and the liberal philosophy. They didn't realize that it was the protection of private property and the equal protection of the freedom of all individuals that had eliminated irreconcilable interpersonal and international conflicts, allowing widespread social cooperation, free enterprise and freedom of movement for men, goods, and capital. People didn't realize the extent to which limiting government and leaving people free had contributed to the economic climate and their improved material welfare. They began to listen to a different breed of thinkers. The Austrian economist Ludwig von Mises wrote a book about this shift in ideas: *Omnipotent Government: The Rise of the Total State and Total War* (1944).

In the West, especially in the United States and in England, the people had succeeded in limiting government primarily to protecting life and private property. Wherever and whenever the principles of free trade prevailed, people prospered and few serious conflicts arose. Unfortunately, however, an understanding of the reason for these more peaceful conditions did not keep pace with the economic improvements.

The new theorists who began to be heard on a wide scale toward the end of the nineteenth century held that irreconcilable

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conflicts existed in society. Whereas the liberal philosophy explained that everyone gains from voluntary transactions so that free trade tends to eliminate conflicts, this new doctrine argued that conflicts were inherent in social relations. It pitted nation against nation, rich against poor, exploiter against exploited, race against race, class against class, employee against employer, buyer against seller, importer against exporter, and the native-born against the foreigner.

Actually these "new" ideas were not new at all but simply old theories in new garb. Their advocates adopted the idea long since discarded by classical and liberal scholars that the gain of one man is the loss of another and that no man profits except at the expense of another. From the Communist Karl Marx they took the doctrine of class conflict and exploitation; individuals should contribute "according to ability" and receive "according to need." They borrowed from the sixteenth- and seventeenth-century mercantilists the idea that it is better to export goods in exchange for gold than to import goods, government should try to maintain an excess of exports over imports, i.e., a "favorable balance of trade"; to rely on imports was considered weakness; a nation should strive for self-sufficiency, autarky. This "conflict" philosophy spawned various movements—Marxism, Fabianism, Populism, nationalism, national socialism (Nazism), fascism, socialism, Communism—which in time transformed the relatively peaceful capitalistic nineteenth century into the twentieth century of wars and revolutions.

Worldwide depression in the 1930s fed the "conflict" philosophy. Few people understood its cause—government interference in the economy. People knew only that unemployment was widespread, prices were depressed, and many businesses were going bankrupt. Governments sought to cope with the unemployment, depressed prices, and bankruptcies by enacting makeshift programs—unemployment insurance, the dole, military conscription, farm price supports, protective tariffs, "easy money," subsidies to some at the expense of others—all of which served only to nurture the "conflict" philosophy. Thanks to the flurry of government activity evoked by these interventionist programs, Berlin, London, Washington, and Tokyo boomed. But the rest of the world languished in depression. Entrepreneurs hesitated to undertake projects or hire workers. Widespread unemployment continued.

In Germany after World War I, rampant inflation had wiped out all savings, completely destroying the middle class. The people were hungry. Adolf Hitler, a rabble rouser with dramatic flair, had attracted a few misfits and malcontents to his movement. The depression added to the distress. Hitler appealed to national pride, built on envy and resentment, blamed the Jews for the economic problem, and began to draw larger audiences.

As economist Ludwig von Mises saw the situation, given the "conflict" philosophy of that day, "the immense majority of the German people saw no means to avoid disaster and to improve their lot but those indicated by the program of the Nazi party." However, Mises explained, Nazism was not the only conceivable solution for Germany's problems. "There was and there is another solution: free trade. . . . Why did it [Germany] choose Nazism and not liberalism, war and not peace? . . . Hitler and his clique conquered Germany by brutal violence, by murder and crime. But the doctrines of Nazism had got hold of the German mind long before then. Persuasion, not violence, had converted the immense majority of the nation to the tenets of militant nationalism." The answer the Germans chose depended on their ideas, the "conflict" philosophy they espoused.

Hitler made the Jews scapegoats and reached out for "Lebensraum" (living space) to obtain the food and other resources needed to make Germany self-sufficient. Hence the occupation of Austria (March 1938), the Czech Sudetenland (October 1938), and the invasion of Poland (September 1, 1939), also of Belgium, Denmark, Norway, Netherlands, Luxembourg,

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and Russia. As Mises wrote during World War II: "Germany does not aim at autarky because it is eager to wage war. It aims at war because it wants autarky—because it wants to live in economic self-sufficiency."

Japan too needed "Lebensraum." Its population was increasing. On the Asian mainland it had successfully opened Korea and Manchuria to Japanese settlement, business, production, and trade. Because Japan protected the rights and property of residents in Korea and Manchuria, many thousands had migrated there from China.

Japan was becoming a modern industrial state and depended on imports more than most countries. Yet Japan's attempts to buy food and resources abroad were blocked. Because of its attack on the *U.S.S. Panay* (1937) and its war with China, anti-Japanese sentiment was rife. Step by step, the United States, the British, and the Dutch imposed restrictions on trade with Japan; self-sufficiency was being thrust upon it. Japan attacked Pearl Harbor to protect its flank as she struck the Dutch East Indies and British Malaya to obtain needed food, oil, rubber, and other resources.

When the war started in Europe in 1939, it was welcomed in some circles in this country because of the many thousands of men it took off the unemployment rolls and because of the war orders it gave to industry. Although officially neutral and forbidden by law to sell weapons to belligerent nations, the United States used various ruses to furnish ships, planes, tanks, and ammunition to the Allies, China, and (later) Russia. Roosevelt knew he was treading on dangerous, possibly unconstitutional, grounds in lending so much support to belligerent nations. He confessed to one adviser that what he was doing might subject him to impeachment. Under his calm exterior, he must have been concerned. He may even have been relieved when we were attacked and brought into the war; several witnesses who saw him on the evening of December 7, after the attack on Pearl Harbor, reported that he appeared more relaxed than he had for weeks.

Is a Return to the Free Trade Philosophy Possible?

New ideas and innovations are always an achievement of uncommon men. In the physical world, these great men may introduce on their own new products, new inventions, new discoveries. But one man alone cannot change social conditions unless he can convince public opinion. To do this he must explain his ideas or ideologies to many people.

To return to a free trade world, the anti-free trade "conflict" philosophy, the breeder of war, must be rejected. The classical liberal philosophy needs to gain wide support. This takes time. But there are signs that many are becoming disillusioned with interventionist government, more critical of Congress and of the bureaucracy. Today's intellectuals no longer lend full-hearted support to the Keynesian interventions with which Roosevelt tried vainly to rescue the nation from depression. Free trade rhetoric is being heard once more, even if the programs labeled "free trade" are not really free trade but mixtures of free trade and government control.

Where there is life there is hope. And the liberal free traders live, are speaking up, using every opportunity to point out, as Mises did in his many works, that the "conflict" philosophy is a "revolt against rationalism, economics, and utilitarian social philosophy" and "at the same time a revolt against freedom, democracy, and representative government."

War is futile. It is imperative that the conflict philosophy, with the envy and resentment it spawns, be exposed as the leading cause of war and totalitarianism. The advantages of peaceful social cooperation ought to be explained by every available means to ever wider and wider audiences. □

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THE FREEMAN
IDEAS ON LIBERTY

A FREE-MARKET UNIVERSITY

by William H. Peterson

These days neither the Ivy League nor the Behemoth State Universities—so politically correct, so given to affirmative recruitment of faculty and students, so "Hey-hey ho-ho/Western-Civ's got-to-go" —display much virtue, including the virtue of individual responsibility, free markets, and limited government. Indeed, many a university has become a wasteland, morally and otherwise.

An exception to the rule lies about a thousand miles south of the Rio Grande. It's Universidad Francisco Marroquín, founded in 1972 in rented space in the capital city of Guatemala. Clues to its philosophy are seen in the name of one of its newest buildings, the Ludwig von Mises Library, so designated in foot-high polished brass lettering over its entrance, and in the fact that members of the UFM faculty have been published on the editorial page of *The Wall Street Journal* as much as those of any American university.

Another clue is seen in its honorary degree awards to individuals of the persuasion of Leonard Read, Henry Hazlitt, Friedrich Hayek, Milton Friedman, Benjamin Rogge, Peter Bauer, W. H. Hutt, Alberto Benegas Lynch, George Roche, Agustín Navarro, Edwin Feulner, Antony Fisher, John Chamberlain, Percy Greaves, Bettina Bien Greaves, Viktor Frankl, M. Stanton Evans, Hans Sennholz, Israel Kirzner, Leonard Liggio, Henry Manne, Thomas Szasz, and J. William Middendorf.

UFM enrollment has grown to 4,500 with schools in medicine, dentistry, law, theology, architecture, education, economics, accounting, computer science, and business administration—the latter with a branch in El Salvador. Exchange programs are maintained with American universities such as Texas A and M.

UFM tuition is maintained at around 20 percent higher than the two other private Guatemalan universities, with applications nonetheless exceeding admissions by a significant factor. (Some local want ads for doctors, lawyers, CPAs, etc., stipulate that only UFM grads will be considered.) But no qualified UFM applicant is turned away if tuition payments cannot be met, as student loans are available.

UFM's high tuition is all the more amazing in view of the fact that Guatemala's national university, whose main campus is just a few miles away, charges its students practically nothing. Understandably so since the national university is allotted four percent of the central government's budget, in accordance with Guatemala's constitution.

UFM funding is assisted by Foundation Francisco Marroquín in Stuart, Florida. The foundation states that it is "devoted to encourage education in the economics of the

Dr. Peterson, adjunct scholar at the Heritage Foundation and former Lundy Professor at Campbell University, is this month's guest editor. He received an honorary degree from UFM in 1991.

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market system and the politics of freedom in Latin America." Besides UFM, the foundation solicits funds for such other Latin American free-market centers as the Centro de Estudios Sobre la Libertad of Argentina, the Instituto Liberal Conselho Nacional of Brazil, the Centro de Estudios Públicos of Chile, the Instituto Cultural Ludwig von Mises of Mexico, and the Instituto Libertad y Democracia of Peru.

UFM academic standards are high, with the university tightening those standards over the years. For example, it eliminated the traditional Latin American university practice of a "second chance" on final exams. It also made more difficult the dropping of courses without affecting the requisite grade point average. And it raised the score that degree students must attain on an English-language proficiency test.

More striking still is the UFM standard on academic freedom. Its faculty handbook recognizes the right of professors to teach "that which is contrary to [UFM's] philosophy or its policies, *as long as it is done elsewhere and under someone else's auspices.*" (My emphasis.) Thus Francisco Marroquín University openly upholds and enforces the right to decide the faculty and content for all of its courses in view of what it holds to be "true, false, useful or irrelevant."

Perhaps the most striking academic standard of all, though, is the UFM requirement that every student, whether of medicine, dentistry, law, education, theology, etc., take and pass courses on the economics and philosophies of Mises and Hayek, reading Spanish editions of such works as *Human Action* and *The Road to Serfdom.*

With the university now in its 22nd year of operation, tens of thousands of UFM graduates are having an impact on political and economic thinking in Guatemala and Latin America. Consider that UFM co-founder and first rector Dr. Manuel Ayau, who is also a businessman and former president of the international free-market Mont Pelerin Society, sought the vice presidency of Guatemala in 1990. Given that Ayau's free-market positions are well known, that he was chosen for the ticket is revealing, that he made the 1991 run-off election, coming up with a respectable showing at the polls, is even more revealing.

That showing is all the more surprising in view of the fact that Guatemala is a Third World country with a 9 million population of predominantly Mayan and Mestizo ethnic groups, a stormy history (two military coups in the early 1980s and some 100,000 killed in armed clashes between security forces and Marxist guerrillas over the past 30 years), an inflation rate of about 11 percent, and a literacy rate of around 50 percent.

So UFM's faculty, staff, students, trustees, alumni, and supporters, have their work cut out so as to maintain and spread their free-market philosophy. In 1993 Guatemala's President Jorge Serrano, initially backed by the army, seized the government. Serrano in one stroke clamped down on the press and abolished the legislature, courts, and the national constitution. But in one week the would-be civilian dictator fled the country, and Guatemala's constitution was restored. Latin American politics in the twentieth century has been anything but calm.

Even so, thanks in part to UFM and its seminal free-market, limited-government thinking, Guatemala's future is not without hope. That hope further springs from economic success stories in Mexico, Chile, and Argentina—Latin American countries also with recent stormy histories which nonetheless managed to turn themselves around.

How in the world then did the UFM begin? In a nutshell, inspiration and entrepreneurship. Co-founder Dr. Ayau was inspired by the lectures and writings of Mises, and through him by the ideas of Leonard Read and F. A. Harper, says Leonard Liggio of George Mason University's Institute for Humane Studies.

Adds Dr. Liggio: "Thanks to Mises' teachings, Ayau and [co-founder and fellow Guatemalan] Ulysses Dent recognized that higher education is the most important contested area for shaping social change—and the area in which the socialists have seized most of the ground." □

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THE FREEMAN
IDEAS ON LIBERTY

THE NEW FOREST

by John Chodes

Robin Hood is not a legend. He was a real person. If he were alive today, he would feel just as at home in our national parks as he did in Sherwood Forest in the 1300s. And for the same reasons. The regulations that filled Sherwood Forest with outlaws and enemies of the state way back then, are at work today and may provide a clue to some consequences of our own ever-expanding environmental laws.

This comes to mind because of a recent decision by the U.S. Forest Service to end logging in many federal woodlands, which provided 7.3 billion board feet of timber last year, roughly 12 percent of all timber used in the United States. This reduced supply means wood prices may climb further and create profound changes in communities where lumber-related jobs will be lost.

These new logging decrees add another layer of codes which protect wildlife from being hunted or fished, and in some cases prevent human beings from ever entering the woodlands where these beasties live.

This leads back to the Robin Hood connection. He was born Robert Hood, in 1290, during the reign of Edward II. Like today, Sherwood Forest and many of the vast royal wildlife refuges in England had once been productive, food-producing farmland. Like today's "wetlands" and "environmentally fragile" zones, where citizens are ejected from their property, supposedly to save nature's eco-systems, the medieval kings expropriated huge tracts of agricultural country in Hampshire to create what they called "The New Forest." It was allowed to deteriorate to its original uncultivated state and no one was allowed to pursue the game inside without the king's permission.

To maintain that wilderness, an army of royal rangers, foresters, and keepers (including the Sheriff of Nottingham) made sure that the laws to keep out humans were administered swiftly and severely.

Of course, with the loss of their life-supporting farms, the commoners were denied the means to survive. While the royal forests were filled with game, hanging was the penalty for any person who killed a doe or boar to eat. Everything in the forest was sacred. To cut a single tree branch was a major crime. Ironically, the only place that a common man could escape the brutal arm of the royal law was in the same place that caused the infraction: Sherwood or Barnsdate forests. They were so inaccessible that even the army of bureaucrats could not find the culprits in there.

Robin Hood's life as an outlaw began, not from killing a protected species, but from being on the wrong political side. He joined the Earl of Lancaster in a rebellion against Edward II. At the battle of Boroughbridge, Lancaster's army was crushed. Robin Hood was officially proclaimed a traitor and his property was confiscated. He fled into Sherwood Forest to avoid the hangman's rope.

As in Robin Hood's time, today's answer to such authoritarianism is: Return the confiscated lands back to their rightful owners.

John Chodes is the Communications Director for the Libertarian Party of New York City.

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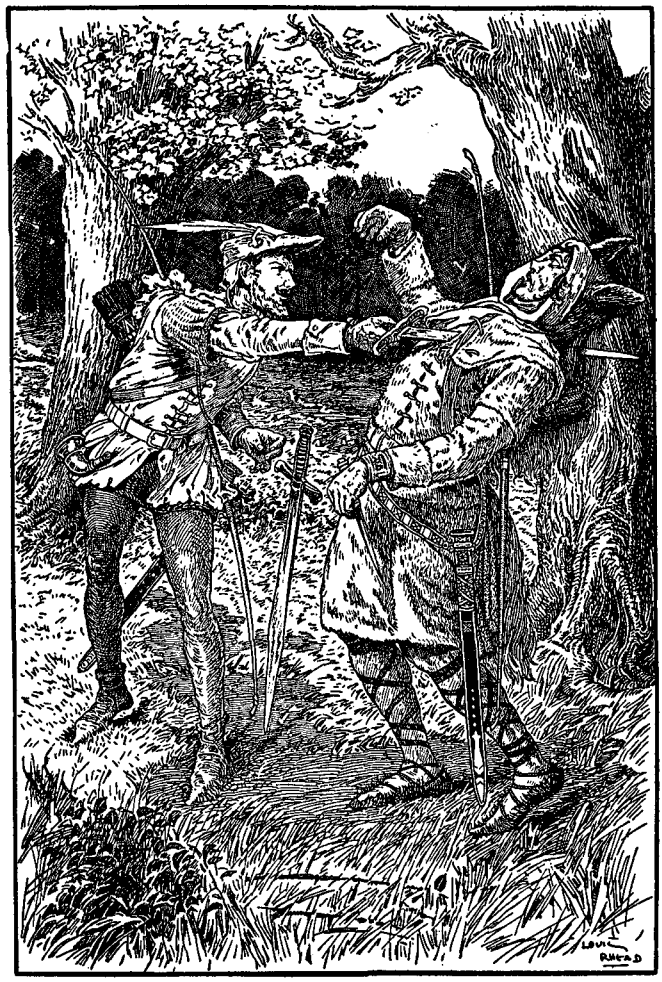

Robin Hood.

Expand, not reduce, the ability of private companies to create jobs and produce products from the forest. Private control does not mean havoc. As has been repeatedly shown, the paradox is that the profit-motive guarantees a more rational and environmentally sound use of the land. Private control demands prudent management of the forests, precluding wholesale exploitation now. This means simultaneous cutting and growing so there will be trees for lumber next year and for the next generation.

This can be verified even in Robin Hood's day. Dr. Robert Laxton, of the University of Nottingham, in a detailed study, found that in the fourteenth century, the cash-strapped English monarchy allowed private logging in certain portions of Sherwood Forest. The evidence shows that prior to this, the royal woodland management was poor but that private ownership encouraged far better conservation.

Today's federal government also is the cause of havoc, often shocking environmentalists by the betrayal of their vision. Uncle Sam has often high-handedly deforested huge areas by letting forest fires rage out of control as a matter of policy. Uncle Sam has exterminated both peaceful and predatory beasts, often more than hunters or fur trappers, in the name of "maintaining an ecological balance." Neither man nor forest has benefited.

If the process continues, as it did in Sherwood Forest, the "protected" species such as the spotted owl won't be safe and private property and other human civil rights will continue to slip away. □

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THE FREEMAN
IDEAS ON LIBERTY

GOVERNMENT "INVESTMENT"

by John Semmens

The idea that the government should spend money as a means of stimulating the economy and boosting employment has been a formal part of U.S. policy since the Employment Act of 1946. This law was clearly rooted in Keynesian economics. The idea was that government spending would make a splash in the economic pond that would send out ripples that would impact the rest of the economy in a positive way.

The plausibility of this idea is enhanced by the very visible employment of those working on the specific projects funded by the government. For example, government subsidies to public transit are often urged as a means for achieving the dual objectives of improved urban transportation and stimulation of employment.

The buses and trains used to provide this transportation are there for everyone to see. These vehicles have drivers. The systems also employ mechanics, ticket sellers, administrators, accountants, etc. The American Public Transit Association proudly observes that over 300,000 people are employed due to public transit spending programs.

In 1992 around $20 billion was "invested" on public transit in the United States. Because this spending does "ripple" through the economy and eventually become someone else's income, it could be said that, in all, public transit may account for the employment of 800,000 people.

This sounds very impressive and is, no doubt, part of the reasoning behind plans to boost the U.S. economy by increased spending on public transit. The flaw in this thinking, though, is its failure to account for what economists call the "opportunity cost" of using resources on transit subsidies. That is, what opportunities may have been sacrificed while funds were being spent on public transit? What gains might have resulted if the funds committed to transit "investments" had been invested in something else?

Since 1965, when the federal government began subsidizing transit, U.S. taxpayers have paid over $60 billion into this program. State and local taxpayers have paid a similar amount. In total, over $125 billion in tax dollars have been "invested" in public transit. If the transit subsidy program had not existed and this money had instead been invested in other businesses, would we now be better off in terms of employment and economic activity?

If we assume that our investment alternative produced only average results, our economy and employment options would be far more robust than they are now. Business assets would be nearly $100 billion higher than they now are. Gross domestic production would be $400 billion higher. There

John Semmens is an economist with the Laissez Faire Institute in Chandler, Arizona.

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would be over 8 million people employed in these alternative business enterprises.

These private sector benefits would have been augmented by substantial public sector gains, as well. Current federal tax receipts could have been $80 billion per year higher than they now are. State and local government tax receipts could have been $60 billion per year higher. These gains from economic growth could have meant fewer tax increases or less government borrowing, either of which would have stimulated economic growth even more than the above estimates.

The reason for the great disparity in results is that it makes a difference whether investments make profits or losses. Since the federal government subsidies began in 1965, public transit has failed to make a profit in any year. In fact, losses have grown larger in every single year since 1965. For 1992, public transit's financial losses amounted to around $13 billion.

Losses mean that the economy is not being stimulated by transit subsidies. Rather, it is being drained. Every year, other, more profitable business activities have been taxed to provide the funds to prop up public transit. The long-term consequences of this parasitic relationship have been very costly.

The economy is weaker. Virtually every sector, save those directly benefitting from the subsidies, has been harmed. There has been a net loss of over 7 million job opportunities. Wages are lower. Business sales are lower. Interest rates are higher. The federal government's budget deficit crisis is worse.

These unpleasant consequences are the result of ignoring the essential role of profit in creating resources and stimulating the economy. Profit results when the value of the outputs of an economic enterprise is worth more than the cost of the inputs. Profits mean that the economic enterprise has added to the economy's wealth. Each increment of profit on each subsequent transaction adds more to the economy's wealth. The compounding of these increments over time is what enables us to enjoy a higher standard of living than earlier generations.

Profits accrue to those businesses that have satisfied their customers. Profits act as both a message and a means for these businesses to continue and expand. Losses send a different message. Losses indicate that the business's output is worth less than the cost of its inputs. A business must heed this message by improving its efficiency or changing its product. Failure to heed the message will result in a loss of resources and endanger its ability to remain in business.

The lack of profit in government enterprises should not be surprising. Government's ability to tax means its businesses are insulated from the need to earn a profit in order to stay alive. Consequently, they don't earn profits. The absence of profits means that government businesses consume rather than create resources.

Despite consuming a huge quantity of resources over the last 25 years, public transit is still a sickly industry. Its share of the passenger travel market has declined. Most buses and trains run mostly empty most of the time. Passenger fares pay less than 35 percent of the cost of each ride. Today the total number of public transit passengers is barely above where it was before all this government "investment" started.

This pathetic record of non-achievement is all too typical for government "investments." If we truly want to stimulate our economy we need to stop "investing" in government's money-losing ventures. □

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THE FREEMAN
IDEAS ON LIBERTY

THE EGG AND I

by William E. Pike

When nine-year-old Jamie Andrich tried to sell a 2,000-year-old fossilized egg he and two cousins had found while on vacation, the government of the vastly underpopulated state that is Western Australia said he couldn't do it. The three children had found the ancient natural relic on state-owned land, and the government therefore claimed it was "public property," and could not be privately sold. Jamie, undaunted, reburied the egg, for which a collector had offered $102,000, and refused to disclose its location until he and his cousins were justly paid.

One has to wonder how the Western Australian government would have dealt with such a situation if the individual in question had not been a nine-year-old with the attention of the world media, but in this case the government gave in. Though unable to pay the steep price being demanded, the government promised to set up a fund to raise up to $109,000 through state museum donations to help pay for the education of the three cousins. So in the end the government got its egg, and the children got their money—more or less.

But this quaint and humorous story brings up a far more serious question. Did the government of Western Australia have the right to claim the fossilized egg as its own? And for that matter, does any government have the right to claim ownership of a piece of "public property" for itself? I set the term "public property" apart because it is itself highly ambiguous. It is perhaps the central phrase around which this argument turns. A government may claim that it is protecting the interests of the masses by holding land or property in trust for the welfare of all citizens, but at what point does such action turn from being beneficial to the masses to being beneficial to the government itself? If Jamie Andrich and his cousins had found and tried to sell a common but pretty pebble for 10 cents, would the government of Western Australia, a state three times the size of Texas but with Nebraska's population, have used legal action to prevent the sale? Probably not.

Who—or what—is the "public" in "public property"? The question is applicable to Australia, to the United States, or to any nation. If I visit a state or federal park, I may fish in "public" waterways (with a license, of course—a meaningless receipt for a tax); I may picnic under the shade of "public" trees, using a "public" barbecue pit; I may set up a tent on the "public" ground; I may hike through a "public" forest. In other words, I may expend my energies and labors in an area I help support (through a variety of taxes and fees) in common with many other citizens. Of course, wanting to be a good citizen, and not disrupt the social order, I would not set fire to a "public" forest, or cut down a "public" tree, but could I not take home an autumn leaf? A piece of driftwood? A beetle for an insect collection? A fossilized egg?

John Locke answers the question thusly:

William E. Pike is a junior at Harvard College studying government.

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> Though the earth, and all inferior creatures, be common to all men, yet every man has a property in his own person: this no body has any right to but himself. The labour of his body, and the work of his hands, we may say, are properly his. Whatsoever then he removes out of the state that nature hath provided, and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property.[1]

Locke then goes on to remind us, as I Timothy says, that "God has given us all things richly," and therefore, if a person gathers "acorns, or other fruits of the earth" not in gross abundance, but according to individual need, then it is by nature his right—his property.[2]

But the growing state is always hungry to increase its powers, and keep the fruits of citizenship for itself. "Public lands" are owned by the people, not by the government. When the state begins to act as the center of a nation or region, higher than the good of the public, the time has come for a re-evaluation of its design. Abuse of land rights is often a definite sign of such overgrown government.

Consider the words of Albert Jay Nock:

> After conquest and confiscation have been effected, and the State set up, its first concern is with the land. The State assumes the right of eminent domain over its territorial basis, whereby every landholder becomes in theory a tenant of the state. In its capacity as ultimate landlord, the State distributes the land among its beneficiaries on its own terms.[3]

In such a scenario the state is obviously not working for the people, but for itself.

Whether it be abusing the power of eminent domain, or whether it be refusing a young boy a tiny bit of his own nation's incalculable wealth, no such government should be allowed to claim ownership of a nation's resources for itself alone, unchecked. Though he may not know it, Jamie Andrich has done his countrymen a service by not letting the state run roughshod over him. The duty of vigilance is a highly important one. We owe it to ourselves. We owe it to each other. □

1. John Locke, *Second Treatise of Government*, Chapter V, Section 27.
2. *Ibid.*, Section 31.
3. Albert Jay Nock, *Our Enemy, The State* (Delavan, Wisc.: Hallberg Publishing Corp., 1983 ed.), p. 64.

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Freedom or Free-for-All?

Imagine playing a game—baseball, cards, "Monopoly" or whatever—in which there was only one rule: *anything goes.*

You could discard the "instruction book" from the start and make things up as you go. If it "works," do it. If it "feels good," why not? If opposing players have a disagreement (an obvious inevitability)—well, you can just figure that out later.

What kind of a game would this be? Chaotic, frustrating, unpredictable, impossible. Sooner or later, the whole thing would degenerate into a mad free-for-all. Somebody would have to knock heads together and bring order to the mess.

Simple games would be intolerable played this way, but for many deadly serious things humans engage in—from driving on the highways to waging war—the consequences of throwing away the instruction book can be almost too frightful to imagine.

The business of government is one of those deadly serious things and like a game run amok, it's showing signs that the players don't care much for the rules any more, if they even know them at all.

Don't think for a moment that by use of the term "players" I'm pointing fingers at politicians and somehow absolving everyone else of responsibility. In a sense, all of us are players; it's just that some are more actively so than others and of those who are active, some are more destructively so than the rest. At the very least, every citizen has a stake in the outcome.

The most profound political and philosophical trend of our time is a serious erosion of any consensus about what government is supposed to do and what it's *not* supposed to do. The "instruction books" on this matter are America's founding documents, namely the Declaration of Independence and the original Constitution with its Bill of Rights. In the spirit of those great works, most Americans once shared a common view of the proper role of government—the protection of life and property.

Jefferson himself phrased it with typical eloquence: "*. . . Still one thing more, fellow citizens—a wise and frugal government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government.*"

Today, there is no common view of the proper role of government or, if there is one, it is light-years from Jefferson's. Far too many people think that government exists to do anything for anybody any time they ask for it, from day care for their children to handouts for artists.

Former Texas Congressman Ron Paul used to blow the whistle whenever a bill was proposed that violated the spirit or the letter of the Constitution. How were his appeals

Lawrence W. Reed, economist and author, is President of The Mackinac Center for Public Policy, a free market research and educational organization headquartered in Midland, Michigan.

This is the first of his monthly columns for The Freeman.

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received by the great majority of other members of Congress? "Like water off a duck's back," Paul once told me.

In a series of lectures to high school classes one day last October, I asked the students (most of whom were seniors) what they thought the responsibilities of government were. I heard "Provide jobs" far more often than I heard "Guarantee our freedoms." (In fact, I think the only time I heard the latter was when I said it myself.)

An organization called the Communitarian Network made news recently when it called for government to make organ donations mandatory, so that each citizen's body after death could be "harvested" for the benefit of sick people. A good cause, for sure, but is it really a duty of government to take your kidneys?

Americans once understood and appreciated the concept of individual rights and entertained very little of this nonsense. But there is no consensus today even on what a right *is*, let alone which ones we as free citizens should be free to exercise.

When the Reagan administration proposed abolishing subsidies to Amtrak, the nationalized passenger rail service, I was struck by a dissenter who phrased her objection on national television this way: "I don't know how those people in Washington expect us to get around out here. We have a right to this service."

When Congress voted to stop funding the printing of *Playboy* magazine in Braille, the American Council of the Blind filed suit in federal court, charging that the Congressional action constituted censorship and the *denial of a basic right*.

The lofty notion that individuals possess certain rights—definable, inalienable, and sacred—has been cheapened and mongrelized beyond anything our Founders would recognize. When those gifted individuals asserted rights to "freedom of speech" or "freedom of the press" or "freedom of assembly," they did not mean to say that one has a right to be given a microphone, a printing press, a lecture hall, or a *Playboy* magazine at someone else's expense.

Indeed, the Founders' concept of rights did not require the initiation of force against others, or the elevation of any "want" to a lawful lien on the life or property of any other citizen. Each individual was deemed a unique and sovereign being, requiring only that others either deal with him voluntarily or not at all. It was this notion of rights that became an important theme of America's founding documents. It is the *only* notion of rights that does not degenerate into a strife-ridden mob in which every person has his hands in every other person's pockets.

Millions of Americans today believe that as long as the cause is "good," it's a duty of government. They look upon government as a fountain of happiness and material goods. They have forgotten George Washington's warning, "Government is not reason; it is not eloquence. It is force. And like fire, it can either be a dangerous servant or a fearful master."

Wisdom like that prompted Washington and our other Founders to write a Constitution which contained a Bill of Rights, separation of powers, checks and balances, and dozens of "thou shalt nots" directed at government itself. They knew, unlike many Americans today, that a government without rules or boundaries, that does anything for anybody, that confuses rights with wants, will yield intolerable tyranny.

We have tossed away the instruction book and until we find it and give it life and meaning in our public lives, we will drift from one intractable crisis to the next. Something more important than any handout from the State—namely, our liberty—hangs in the balance. □

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THE FREEMAN
IDEAS ON LIBERTY

MONOPOLY DEMAND FOR LABOR?

by Glen Tenney

"The produce of labour constitutes the natural recompence or wages of labour."[1] These words were penned by the great Adam Smith more than two centuries ago; yet his message is very clear, and it remains relevant today: The wage rate is determined by the productivity of labor. Adam Smith also appropriately observed that wages depend on the voluntary agreements made between the worker and the employer: "What are the common wages of labour, depends every where upon the contract usually made between those two parties, whose interests are by no means the same. The workmen desire to get as much, the masters to give as little as possible."[2]

Beyond this point however, some of the classical economists, including Adam Smith, had an incomplete understanding of the concept of value as it is understood today. According to the accepted theory of their day, which is at least partially accepted by many people today as well, the value of any product is determined by the wages of the labor which produced it. Perhaps related to their belief in this "labor theory of value," or perhaps out of genuine sympathy for the plight of the working man, they felt that employees had great disadvantages relative to their employers.

Adam Smith taught that because employers were fewer in number, they were able to combine forces against the workers and force the workers into compliance with their terms. In his view then, employers would be able to create a monopoly of demand for labor, which would allow employers to restrict their demand for labor and lower the wage rate to a level consistently lower than the marginal revenue realized by the firm through the productive efforts of the employees.

Another economist from the classical period, Jean-Baptiste Say, wrote of the "urgency" of the workers' needs relative to those of the employers. According to Say:

> The wages of the labourer are a matter of adjustment and compact between the conflicting interests of master and workman; the latter endeavoring to get as much, the former to give as little, as he possibly can; but, in a contest of this kind, there is on the side of the master an advantage over and above what is given him by the nature of his occupation. The master and the workman are no doubt equally necessary to each other; for one gains nothing but with the other's assistance; the wants of the master are, however, of the two, less urgent and less immediate.[3]

Taking from the sentiments of great thinkers such as Smith and Say, others called for the organization of workers into unions with

Mr. Tenney teaches economics at Northern Nevada Community College in Elko, Nevada.

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the purpose of raising wage rates. The socialist thinker Karl Marx went still another direction with the labor theory of value, and wrote about the outright "exploitation" of the workers by capitalists.

But what of this so-called "disadvantage" on the part of labor? Is it really possible for an employer to monopolize the demand for labor, and thereby consistently push the wage rate below the productivity of that labor? Careful thinking about the nature of labor markets in the real world reveals the truth of the matter. Employers do not enjoy any general advantage over workers, and it is impossible for employers to join together to create a "monopoly of demand" for labor services. It is impossible to have a monopoly over the demand for labor because man's desires to have services performed are dynamic—not limited in the manner that the supply of goods and services are. There is always work that can be done in society, and no one firm or one industry can possibly be the sole demander of labor services.

Subjective-Value Theory

In the later part of the nineteenth century, the Austrian economist Carl Menger discovered the error of the labor theory of value, and replaced it with a subjective-value approach. In addition to Menger, others have articulated the subjective-value theory, and meaningfully built upon it. Under this approach, the value of a product is determined subjectively by the prospective consumer as he weighs the benefit from consuming a unit of the good against the cost sacrificed in order to obtain the product.

This value is often referred to as the marginal utility of the good, and is specific to the individual perceptions of the market participant. Thus inputs into the production process, such as materials and labor, are valued at the amount necessary to attract these productive factors away from their alternative uses. Logically then, wage rates as well as the price of other inputs are determined subjectively, based on the final value attached to the final product by the consumer.[4] This is quite different, and in fact the opposite, from the prior thinking which held that the value of the final product was obtained from the value of the inputs into the productive process.

Perhaps the most thorough expositions of the subjective-value approach to the concept of valuation were provided by Ludwig von Mises. Concerning the possibility of a monopoly of demand for labor, he denies that any such situation can persist in any meaningful way in an unhampered market economy. In the real world, labor is not homogeneous. The demand for labor services is a demand by business firms for a specific type of labor that is suitable to render specific services. In order to obtain these specific services, the entrepreneur must offer these workers incentives sufficient to entice them to withdraw their efforts from other endeavors which the worker might choose to engage in. These inducements are offers of higher pay, and can be made by higher wage levels, greater employee benefits, or a combination of both.

Labor's "Inability to Wait"

Professor Mises has further pointed out that the "inability to wait" or "urgency" argument, that was a major focus of the classical economists, is not valid. The "inability-to-wait" argument assumes that the difference between the wage set by the marginal productivity of the worker and the imagined lower rate set by the so-called monopoly power of the employer is pocketed as additional profit by the entrepreneur. In the Mises view, an employer attempting to act as a monopolist in his hiring practices would have to have an effective monopoly in the selling of his product, the purchasing of other productive inputs, and all other aspects of his business. Because productive inputs, and labor in particular, are limited, and can and will be used in alternative uses by competitors and non-competitors alike, it is impossible for the entrepreneur to act as a monopolist to persistently depress the wage below the rate conditioned by the marginal productivity of the laborer.

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The businessman can succeed in lowering workers' pay only by restricting his demand for labor, which will have the effect of reducing the quantity of labor hired and used. Other employers, and would-be employers, seeing these bargain rates for labor, will want to take advantage of the opportunity of the lower labor prices, increase their demand for labor, and push the wage back up to the level prescribed by the marginal productivity of the labor.

It must be conceded that in a world where such competitive restrictions as occupational licensing and business permits dominate the industry, these measures will tend to restrict the competitive bidding for certain types of labor. Although these anti-competitive measures are not in accordance with an efficiently operating economy, and the elimination of such measures in an economy should be encouraged, it is naive to believe that such measures will be successful in preventing potential demanders of labor from bidding up wage rates in order to remain competitive.

There are many margins on which a firm can effectively compete when it comes to satisfying the desires of consumers. A higher wage rate (or equivalent employee benefits of one kind or another) paid to workers might be the very edge that a firm needs in order to compete successfully in the market for its products.

The very notion that workers compete with their employers in a meaningful way in setting wage rates is somewhat misleading from the start. An employer's primary competition in the hiring and use of productive inputs, including labor, is from other entrepreneurs who use, or can use, the same inputs in other productive processes. It is not necessary for two firms to be in the business of producing the same product, or even in related industries, in order to vie for available labor services. The non-specific nature of labor services assures that those services will be desired by any number of firms. Professor Paul Heyne has pointed out: "Workers compete against workers, corporate employers against corporate employers. And this is the competition that affects wage rates. Workers cannot successfully insist on the wage they think they deserve if other workers are willing to supply very similar services at lower wage rates."[5]

Thus we see that the competition that employers have from other employers of all kinds assures that any bargain-priced labor will be competed for by the employers bidding up the wage rate to the value of the output of that labor.

In summary, the demand for labor services is treated by business firms in the same manner as the demand for other inputs to the productive process. Because the efforts of workers can be put to use in a variety of ways by a variety of firms that may or may not be competing directly in the product markets, the price that firms will be required to pay for these services will tend toward the value of the workers' output as perceived by the end users of the products that they produce.

There is no lack of demand for labor by employers acting either on their own or in tacit combinations as monopolists, because there are no limits to the number of productive labors that are required to be performed in society. □

1. Adam Smith, *The Wealth of Nations* (Chicago: The University of Chicago Press, 1976), p. 72.
2. *Ibid.*, p. 74.
3. Jean-Baptiste Say, *A Treatise on Political Economy*, First American Ed. (Philadelphia: Claxton, Ramsen, and Haffelfinger, 1821; repr., New York: Augustus M. Kelley Publishers, 1971), p. 338.
4. Eugen von Böhm-Bawerk, *Value and Price* (Spring Mills, Pa.: Libertarian Press), pp. 28–29.
5. Paul Heyne, *The Economic Way of Thinking* (New York, Macmillan Publishing Company, 1991), p. 307.

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THE FREEMAN
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HIGHER AIRFARES AHEAD?

by William L. Anderson

Last summer, I flew to the Northeast to participate in a seminar on teaching economics. In the process of buying my ticket, however, I learned an important economic lesson in this post-Airlines Antitrust Litigation age: antitrust decisions usually do not benefit consumers in general.

For many years, I have almost exclusively flown Delta Airlines, which means I have been able to build up frequent flyer miles. But when I called my travel agent to purchase a ticket for my flight to Philadelphia, she informed me that a competing airline could take me to my destination for $50 less than Delta. I asked about the possibility that another fare war might begin, allowing me to fly my preferred airline for a comparable price, but she said she had no such information. Given this meager bit of knowledge, I decided to go with Delta's competitor.

In less than a week, a fare war did begin and Delta's charge for the Atlanta to Philadelphia route was $152, nine dollars *less* than what I had just paid. In other words, had I waited a few more days, I could have had my low fare and Delta.

What is galling to me is that a year ago, my travel agent could have tipped me off about a coming fare war. Since last year, however, Delta and several other airlines settled a class action lawsuit which accused them of price fixing and other antitrust violations. One of the provisions of the suit was that the airlines could not notify customers of impending price cuts; that is considered collusion.

Thus, a provision of a legal settlement which supposedly was meant to help consumers like myself receive a better deal has actually forced me to pay more for less service, part of the law of unintended consequences. It is no accident that this situation has occurred, the way that the plaintiffs (and antitrust lawyers from the federal government) define competition, price fixing and collusion almost guarantee that any "solutions" they impose will be anticompetitive.

In the academic world of antitrust "experts," prices are objective (and purely a function of cost-plus), and, in most situations, are subject to few restraints. The "experts" believe that information which is shared by more than one firm will automatically lead to collusion, and if two or more firms charge the same price for a good or service, that is prima facie evidence of price fixing. Therefore, according to their definition, competition will better serve consumers when everyone has less information to help them make choices.

The real world offers a different and more accurate definition of competition. Prices, far from being something that can be objectively calculated by a central authority, are subjective and reflect the values of buyers and sellers at the point of purchase. Matching a competitor's low price is not an act of collusion. Rather, it is a tool that allows a producer to remain an equal participant in the marketplace. Competitive situations require that participants be as well informed as possible, not left groping in the dark.

I predict that the antitrust settlement will lead to higher, not lower airfares. Perhaps, this is why the airlines so eagerly embraced it; it will give them a chance to reap some badly needed profits while operating under an agreement which has produced a public perception running counter to the truth. □

William L. Anderson teaches economics at Chattanooga Christian School and Covenant College.

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THE FREEMAN
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SOCIAL SECURITY, THE WELFARE STATE, AND THE MARKET

by Sylvester Petro

While old-line Communists in the Russian parliament strive to abort the market economy's birth in Russia, the forces of darkness in the Nomenklatura of the Western welfare states work unremittingly to prevent their existing market economies from realizing man's ultimate good: a peaceful world in which global free trade spreads instantaneously everywhere, from their points of origin, the improvements in human well-being brought about by the creators among us—the savers and the entrepreneurs, thinkers, and inventors, driven by the profit motive to serve mankind's endless effort to better itself.

But no matter how vigorously they act to preserve and extend it, the Nomenklatura cannot make the welfare state viable because it is an inherently bad idea. And so, the West's alternative to failed "Communism," is itself foundering. It is foundering because it is attempting to serve man's fundamental objectives of freedom, well-being, and security with inappropriate means.

Evaluating the welfare state's role in the realm of human action ambiguously called "social security," I make three points in this essay:

1. If we think of social security as the security of society as such, rather than as the economic welfare of individual persons, the institution known as the state has important work to do; for, without it, the peace, harmony, and freedom vital to the spiritual-material welfare of mankind, are unattainable.

2. If we define social security as the economic security and welfare of the individual persons in the society, however, both theory and history teach that efforts by states to provide such "security" directly are not only futile but counterproductive and even noxious.

3. When, to use Spencer Heath's phrase,[1] the citadel engulfs the market and the altar, when the state takes over services optimally provided by private, market institutions, unsatisfactory performance is certain to follow.

I. Limits on the Competency of the State, Including the Welfare State

Contrary to opinion prevailing especially in the academic and journalistic communi-

Mr. Petro is Director of The Institute for Law and Policy Analysis, Winston-Salem, North Carolina, and Trustee Emeritus of FEE. *This essay is an extension of his remarks at the regional meeting of the Mont Pelerin Society in Rio de Janeiro, September 1993.*

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ties of the United States, the human institution which we call the state partakes not of the divine; it is not omni-competent, but sadly all too human, and thus severely limited in its competence. The agency which history calls the state is not equipped to create health or wealth or long life or productive employment or art or intellect. Sad it may be, yet wishful thinking cannot make the state something it is not. The essence of the state lies in compulsion, but the only means to the ends just listed is liberty.

Yet states in our time, though they have never succeeded in the effort, increasingly direct their resources and energies mainly to these goals which they are incompetent to achieve, while impairing the condition essential to all human achievement—liberty.

The state as we understand it is a sledgehammer. With it, crime and aggression may be beaten into submission but so too may liberty and enterprise. The welfare state does not differ essentially, despite the wishful thinking of the socialist mentality which animates it. It may try to be all things to all men, but before everything else it is a state, a governing agency. Like every other state it is serviceable in only one variety of production, that is, the production of government—of suppression—not of creation.

It will not do to ignore the fact that suppression has its uses. Even the anarchically inclined must recognize the evil in man and, this far along in human history, that an agency such as the state is both inevitable in the normal course of human events, and indeed even crucial to the existence of the free and prosperous commonwealth—if it confines itself rigorously to the peace-keeping functions which have repeatedly induced mankind to create states or to accept those forced upon it.

Like the sledgehammer, the state is a tool of narrow competence. Attempt to make it into something which by its essence it is not and you produce a false artifact—at best a curiosity, at worst a monster. Each time that evil men have induced fond and self-indulgent fools to turn the state from its proper governing mission into a welfare agency the result has been poverty and chaos. This is no historical accident. It is the product of inexorable law, as implacable as the law of gravity.

The agency which we call the state is reasonably well constituted for the performance of peace-keeping functions.

Commanding all the brute force and physical resources of a society, the state has, in principle, power enough to force its will upon any individual aggressor, any group, or any group of groups. With like-minded states it may preserve the peace against even international aggressors. In order to perform this function, however, its will must be intact. If like all too many local police forces in America, the state is unwilling to use its power to prevent aggression, confusing itself with a welfare agency while harassing and disabling its most productive citizens, in the meanwhile running up huge deficits in its futile efforts to enable the unable, the state becomes worthless, indeed noxious—not greatly different from and certainly less competent than the international Mafia which it has come more and more to resemble, even when it calls itself the Group of Seven.

Our age has demonstrated perhaps more definitively than any other that the state is incompetent to create but cruelly effective in destroying wealth and the personal well-being and security which only wealth can provide. And yet it has fallen also to this fecund and complex age, despite those failures, to keep producing governments which daily intervene ever more globally into economic and intimately personal affairs. Totalitarianism flourishes under another aegis, social security and the welfare state. The ablest persons and industries are persecuted and desanguinated in the name of welfare for the many, but in fact for the benefit of the wire-pullers, as Sir Henry Maine called them,[2] and of the Nomenklatura. The poor, sadly, we still have with us, despite the endless wars on poverty which the Lyndon Johnsons of the world keep waging.

The Soviet Union, the paradigm and paragon of economic interventionism, that tawdry throne of cradle-to-the-grave security for its citizens, foundling home where each

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would be served according to his needs, theater of the absurd in which bleeding-heart socialists have wept with joy for the last seventy years or so, is now no more. People in tatters go hungry there, vodka is in short supply, pensions worthless, medical care wretched. In short, it is in shambles.

Sweden, another paragon welfare state; Italy, the most state-dominated economy west of the Iron Curtain; England, mother of welfare states—all nearly moribund. And now a Frenchman writes that the social security system of France is "bankrupt."[3] Even still prosperous welfare states such as Germany and Japan falter. As for the United States, every year its immense deficit and bloated Nomenklatura add more dead weight for its overtaxed economy to carry, while the stupendous multi-trillion dollar national debt absorbs most of the exiguous savings which the thrifty manage to set aside despite the endless exactions of the welfare state.

I believe I could show, had I but time and energy enough, that every cent of the deficit traces to some governmental sin of omission or, more often, of commission. We go increasingly into debt year after year, in futile efforts to correct the evil results of previous interventions, when the only way to get back on track is for the government to get out of the intervention business and back to the business of keeping the peace, its one vital responsibility.

I offer pollution, the automobile, and the internal combustion engine as examples of the talent with which the interventionist welfare state has mired itself by aborting free competition and free pricing. Scarcely anyone in the world seems old enough any more to remember, as I do, that the petrol-fired internal combustion engine owes its current widespread usage to the price controls and harassing regulations which made it unprofitable for the private enterprises which created them, earlier in this century, to continue operating clean-running electricity-powered trams and trains. Thus the interventionist welfare state is fundamentally responsible for the worst polluter of our time, but you would never know it unless your memory was long and your wits still sharp.

The interventionist state has thus literally transformed the face of the earth, *for the worse*, of course, with this one grotesque distortion of the free market for transportation. Unless it breaks itself of, or the citizenry compels it to kick, the intervention habit, God only knows where it will take mankind. In all probability, if the environmentalist fanatics have their way, it will be back to the caves.

I ask you to review in your mind other problems afflicting the welfare state today, especially in the United States: family breakdowns, juvenile delinquency, unemployment and homelessness, illiteracy, the economy-busting costs of medical care, perhaps worst of all the surging deficits and the inflation they cause, however hidden, and unchecked crime. Any one who has read Ludwig von Mises, especially *Socialism* and *Human Action*, knows that all these problems have been exacerbated if not indeed created by welfare-state intervention.

At the risk of vexing the reader, I repeat: by its nature, the agency we have come to call the state has an extremely narrow range of competence. It can regulate, control, govern; it can beat into submission, incarcerate, kill; it can force one person to compensate another, or to cease and desist from engaging in certain activities. It can compel human beings to pay tribute to it. It can take tribute from one person or group and transfer that tribute to other persons or groups.

But what government—as government—cannot do is create any thing other than government. The human construct that we call state, cannot make a baby or even nurture one. When a foundling is left at the police station, the gendarmerie places it in a foundling home. This proves, one might argue, that the state can do more than govern. But it proves no such thing. It proves only that the state may use its powers of coercion and compulsion to extract money from the citizenry with which to subsidize other human beings in operating the home. One may no more say that this

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reveals creative powers in the state than one may say that the state can grow corn because with money exacted from taxpayers it subsidizes corn-growing farmers.

The state produces one thing—government: good government or bad government; mostly bad government: but always government. When it taxes some people for the benefit of other people—the main, if not the exclusive activity of welfare states—the beneficiaries may produce something, perhaps even something good, perhaps even a good work of art, say. But this does not establish the state's credentials as a creative agency. The state in this transaction remains what it has always been: an instrument of force and violence which now has used its power to redistribute wealth, not to create it.

It would not be correct to say that there is a net gain in this process in that now a work of art exists which otherwise would not. For one thing, we do not know that but for the government the artist would not have produced the work anyway; much fine art exists, we know, more despite government subsidy than because of it. For another, we do not know, and we cannot know, what net addition to the wealth and wellbeing of mankind might have been aborted by the state's forced transfer of funds.

One thing we can know with certainty is that the persons whose funds have been taken from them have not been able to use them in creative ways of their own: the fruits of their efforts have gone to someone else; the private-sector has been impoverished; art has not been served; no deserving person is better off; goodness has been neither rewarded nor promoted. There is another thing we know with certainty—bureaucrats have decided which artists should be patronized, not the people who created the wealth. As Bertrand de Jouvenel has said: "The more one considers the matter, the clearer it becomes that redistribution is in effect far less a redistribution of free income from the richer to the poorer, as we imagined, than a redistribution of power from the individual to the State."[4]

Observation confirms what logic and economic understanding have long known: that the more resources the government takes from the productive to redistribute to the nonproductive, the greater the impairment of the productive, the private, sector. If you take from me the fruits of my efforts, you impair both my capacity to produce and, more importantly, my will to produce. I have no desire to subsidize the Nomenklatura of the United States, any more than I had a desire to promote the welfare of Mikhail Gorbachev and his henchmen. And I know that confiscating the fruits of my efforts has not bettered the condition of the poor, but has in fact, in enervating the economy, made it harder for the ambitious poor to break the vicious circle of poverty.

Show me a state that has succeeded purely as a producer of goods, without resorting to force and violence to exclude competition from private persons. Cuba? Hungary? Poland? Italy? Good God!

The land of opportunity has always been—it remains—the land where capitalism and free enterprise are flourishing. Theory and history have combined over and over again to show that this is so, and why only free markets deliver the goods; only free enterprise creates wealth. And without plentiful wealth—or capital—none of the good things to which the welfare state pretends to aspire, but cannot deliver, are possible.

But capitalism needs capital if it is to flourish. In seeking to share the wealth through confiscatory governmental methods, greedy advocates of the welfare state are succeeding only in destroying present wealth as well as the mechanism of its future production. The savings with which capitalism could make the desert flourish and increase opportunities for all are now being diverted by the welfare state into nonproductive channels. Our "social security" system when administered by the state is a device for consuming vast capital—and with it the only genuinely effective means of promoting the general welfare.

There are things that the state can do which promote capital growth and hence the general welfare, but these are things which

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involve social security properly understood, not the semantic trickery of a "social security" which subordinates the general welfare to the personal welfare of politicians, bureaucrats, and the wicked with whom they consort. And to this set of distinctions I now turn.

II. Security: Social and Personal; Individual Retirement Arrangements

The greed of the welfare-state interventionists seems to be exceeded only by their intransigent economic ignorance, the kind of ignorance which enabled George Bush to refer to the only coherent economic principles in existence, as "voodoo economics." George Bush's sad economic ignorance helped him lose his office; unfortunately, worse ignorance has failed to remove the even more culpable politicians in Congress and the bureaucrats who remain hell-bent to cripple the American economy in the name of a false conception of social security.

The greatest threat to the *properly understood* social security of the free world has disappeared with the breakdown of the world's super welfare state, the Soviet Union, the nation which set out to demonstrate that cradle-to-the-grave welfare and security could be provided to all by the state, once evil capitalism was abolished. In a world governed by virtue and intelligence, the disappearance of this threat to mankind would have been followed by a huge reduction in taxation, a measure which all logic and experience indicate as the best means of increasing the wealth and hence the welfare of mankind.

Instead, in the United States there has been no peace dividend for the stockholders. It has all gone to the management—the Nomenklatura and the permanent-tenure Congress—and to the wicked with whom they consort. For the savers and the productive taxpayers there have been only higher taxes with the greatest tax increase in U.S. history still to come under the Clinton plan to combat a recession which does not exist, with money the government does not have, for purposes of value only to bureaucrats, politicians, and the wicked.

Yet more deadly in the long run, we may look forward to a substantial increase in our already huge national debt, with the depressing economic consequences entailed in the servicing of such a debt.

There can be little doubt that de Jouvenel was right when he said that the welfare state was a mechanism mainly for increasing the power of government. Social security understood as the security of a society as such means the security of the principles necessary to the survival and prosperity of the community as a whole. This was the understanding which produced the preamble of the United States Constitution:

> We the people of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity, do ordain and establish this Constitution for the United States of America.

The welfare to which the Constitution referred was not the particular welfares which are the pretended concerns of the welfare state—the old, the poor, the farmers, the spotted owls, etc. The Constitution refers only to the *general* welfare. The only possible meaning of *general* in the context of the preamble is the welfare of all, that is, the welfare of the whole community—rich, poor, young, old, sick, well, tall, short, male, female—mankind in all its diversity. And the only way that mankind generally can be served, when one considers the diversity of its conditions and interests, is by general rules, equally applicable to all, empowering the energetic and the productive to act freely, and protecting them and the fruits of their efforts from aggression—not to their infinitely varying personal conditions of age, wealth, health, and so on. It seems impermissible, therefore, to interpret the general welfare clauses of the Constitu-

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tion as authorizing, let alone commanding, the establishment of the welfare state as we know it.

Instead, the U.S. Constitution seems best read as a rule-of-law document, confining the U.S. government to measures which benefit everyone equally—broad principles, justice, tranquility, defense, liberty, the *general* welfare—in sharp contrast to the log-rolling, special-interest, special-subsidy offal which constitute the essence of the welfare state.

For we must not lose sight of the fact that the framers of the Constitution of the United States were for the most part remarkable men, endowed with considerable virtue and intelligence. In Philadelphia, in 1787, they were not busybodies trying to lead other people's lives for them; they were not preoccupied with the trivia of daily life or even more serious personal problems such as career, health, sexual discrimination and the like. Mature persons of stature with a due respect for human dignity believe that those are *personal* problems for human beings to work out for themselves, once the state provides them with a society in which their lives and property are secured by a formidable army and police force and an effective system of justice, the institutions which the Constitution established.

The men who framed the U.S. Constitution were keenly aware that it was a *constitution* they were building, a structure of government, not a plan for daily living. We shall not see their like again, not soon, and not in politics, anyway; not until we have the sense to rearrange the terms and conditions of political office, so that legislators are motivated to protect property rights and to promote the growth of capital, not its destruction or desanguination.

The original Constitution of the United States survives today only in a grossly mutilated form, in a disgraceful government, where even its basic principle, the separation of judicial, legislative, and executive powers, is daily flouted. Where the Supreme Court prefers to legislate while accepting gross invasions of its judicial powers by both the Executive and the Congress; the Congress delegates it law-making functions to administrative agencies while invading executive and judicial powers; and the executive cravenly submits to invasion of its powers while furtively encroaching upon the legislature and the judiciary whenever it can do so without arousing the sleeping lion which it fears more than all else, the impeachment power of Congress.

The perversion evident in the decadent condition of the separation of powers principle is equally pronounced in the transmogrification of the idea *social security*, which has now become *personal security*—just as *general* welfare has come to mean *personal* welfare. Indeed, one hears every day a repetition of the fundamental article of faith of contemporary interventionists: that the government of the United States is a government of unlimited powers and responsibilities; in short, a totalitarian government in all but name.

Because this constitutes ruling opinion, we have in Washington, D.C., today a government which, with the abundant means gained by desanguinating our economy, is bent on fulfilling the wishes of the sick busybodies among us to stick their noses into everyone's business to a degree never dreamt of before, not even by the likes of Josef Stalin.

There is dreadful fascination in watching the destructive interventionists and the Nomenklatura at work, parrying threats, knifing anyone who imperils their privileges. Thus the 1980s, one of the longest periods of U.S. prosperity of this century, has since been called the decade of greed. That this is a characterization by the truly greedy—the nonproducers lusting after the wealth created by the productive adds to the dreadful fascination of the process. With the help of their ignorant vassals who dominate the journalistic media of the United States, the Nomenklatura and the social democrats preach that Ronald Reagan's philosophy of government as the problem not the solution must be rejected as an apologia for greed. They know that if the inert masses ever grasp the idea that interventionism benefits only the bureaucracy and the wicked, and

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does the masses themselves harm, not good, the game will be over for them, as it seems to be for their soulmates in the former Soviet Union.

But even more morbidly fascinating is the way they have emasculated the "decade of greed's" salubrious means of providing for old-age security—a means capable of actually providing the security which the welfare state promises but which it cannot provide, namely, the tax-exempt individual retirement arrangements commonly referred to as IRAs.

****

The IRA is a savings device which permits persons to set aside a certain amount each year, without paying taxes on the money or its earnings until retirement. Unlike the compulsory "social security" payroll tax, IRA savings *belong* to the contributor himself, they become a part of the productive capital of the nation—and are not subject to being furtively spent by a larcenous government anxious to hide the horrendous deficits it is running in order to finance its biennial vote-buying sprees, handouts which it mendaciously calls expenditures authorized by the general welfare clauses of the constitution!

Peter Ferrara[5] has shown that from the contributors' point of view, the personal IRAs are superior in every way to the compulsory "social security" system. The problem, however, is that they are not superior from the point of view of the Nomenklatura. They may be good for the people, good for the country, good even for the whole world. But they do happen to expose the substantial bureaucracy of the Social Security Administration as an expensive, inefficient, irrelevancy, and this of course no Nomenklatura can tolerate. As a result, rather than expanding the scope of the IRAs, as a government of the people, by the people, and especially for the people would do, the U.S. government alas restricts them more and more.

We are to learn from this that under the welfare state government is neither by the people nor for the people, although, because someone must pay the bills, it must be *of* the people.

If the hammer of government is not the best tool to provide for the security of the aged, it is also not an appropriate means of ministering to the physical health of a society. Honest assessment must conclude that everything the U.S. government has done so far in the health field has created more harm than good.

In fact its various interventions have brought about truly menacing hospital, medical, and pharmaceutical costs; costs which, at the rate of growth of the last twenty years, would in a generation consume the entire national product. Any person of sense knows that if demand for a product in limited supply becomes infinite, the price of the product will unless somehow checked become infinite, too. In its usual fashion, however, the Nomenklatura ignores the laws of economics, offers nothing that would promote increased supply of health goods and services, and proceeds in its self-defeating way to encourage a growth in demand while then rationing the supply that it is doing its best to shrink.

The current American president, along with the current American Congress, is naturally blaming everyone but the government for the medical "emergency" that the government itself has created. And naturally the Nomenklatura apparatus headed by the president's wife has only the standard welfare state remedies to offer, price controls on the drug companies and rationing of medical care. Thus the American health industry, the equal of which I believe does not exist anywhere in the world, is doomed to the same inanity which the interventionist state has afflicted us with in each sector of the economy to which it has directed its tender loving care.

Sensible people in the United States have been proposing free-market, private-property solutions to the health problem analogous to the plainly desirable IRAs for retirement. The virtues of medical IRAs would seem to be equally plain. But like the individual retirement arrangements they have one fatal flaw in our supposed democ-

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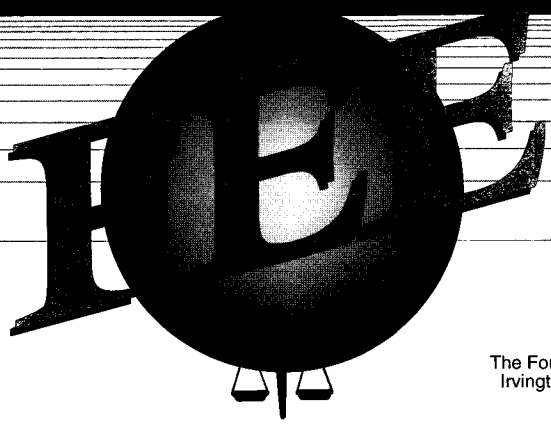

The Foundation for Economic Education
Irvington-on-Hudson, New York 10533
Tel. (914) 591-7230
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April 1994

Forty-Eight Years Young

On March 31 the fiscal year of the Foundation draws to a close. The accountants and auditors look back, the managers look ahead, and the trustees evaluate all.

Looking back, we are mindful that the history of an institution primarily is a biography of the man or woman who created the institution. The history of The Foundation for Economic Education merely is the biography of Leonard Read who founded and managed it from 1946 to his death in 1983. Since then several successors tried to fill his giant shoes with mixed success.

While Leonard Read at times worked with thirty-six full-time and nine part-time helpers, the staff now consists of fifteen members. Yet the productivity of the present staff, which is equipped with state-of-the-art computer equipment and matching software, undoubtedly is greater by far than that of Leonard's team. During the 1940s, 1950s, and 1960s a dozen ladies labored diligently for several days to write and stuff 50,000 "Notes from FEE" and many more letters to *Freeman* subscribers. Today, it may take one person several hours to program a computer writing letters and printing envelopes, and with the help of a Pitney Bowes Spectrum Inserter System, stuff and mail 3,000 letters per hour. The computer revolution which has raised the productivity of American labor immeasurably and reduced the onerousness of human exertion also has benefited this Foundation.

From its very inception the educational task of FEE has been the study of the maxims of the free society and the search for new ways of sharing its studies. This objective has not changed throughout the decades. Until 1955 most studies were released in the form of leaflets, pamphlets, and books. Since 1956 they have been presented primarily in a celebrated journal, *The Freeman*.

For thirty-three years Dr. Paul Poirot managed the journal. Today, the monthly issues are prepared by "guest editors" who take charge of one issue each. The "guest editorship" draws upon the large pool of talents of numerous writers and authors and draws them into the world and work of *The Freeman*. It is very popular with professional writers who would be reluctant to assume the responsibility for all *Freeman* issues but enjoy and readily take charge of a single issue.

Since March *The Freeman* also carries regular columns by some of the brightest minds of our time. Mark Skousen, the writer and publisher of *Forecasts & Strategies* and author of several treatises on economics, is writing the column "Correction, Please"; Larry Reed, the influential President of Mackinac Center, on "Ideas and Consequences." Gary North, the powerhouse in Tyler, Texas, will join them with a column of his own.

Throughout the years FEE has published a number of books some of which became bestsellers in several languages. During the last eighteen months, FEE managed to release one book every month, some of which were new creations by eminent writers, others anthologies of great *Freeman* essays published in the past. The books cover a great variety of contemporary topics such as *Politicized Medicine, Public Education and Indoctrination, Taxation and Confiscation, Man and Nature, Bankers and Regulators*, etc. Most of these titles are marketed in large quantities by the Conservative Book Club, Laissez Faire Books, and other distributors.

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The Foundation has embarked upon an ambitious program of translating major FEE publications into the Russian language, which is the most important language in Eastern Europe. Willing to finance the translations, printing, and distribution, it is negotiating with two organizations for the efficient management of the project.

FEE continues to publish a variety of leaflets and pamphlets ranging from "Man Must Work" to "The Great Depression: Will We Repeat It?" Great essays published in *The Freeman* are reprinted and distributed by the thousands, free of charge. Every month a series of op-eds which are based on *Freeman* articles is going out to 217 newspapers from coast to coast. As many papers readily publish our material, the op-eds indirectly multiply the readership of *The Freeman*.

The number of FEE publications in 1993 exceeded that of 1992, which in turn exceeded that in recent years. We expect 1994 to set new records in the publication department. We are laboring and spending considerable funds preparing for an advertising campaign on popular radio shows. The campaign is designed to boost the sale of books from our growing selection and to increase *The Freeman* subscriptions. We already launched a pilot program, entering into a six-month contract with Radio KTUC in Tucson, Arizona, to broadcast a "Freeman Radio Magazine" hour each Sunday morning from 7 to 8 A.M. Although the program does not cover its costs through new *Freeman* subscriptions by Arizonians, the growing number of listener-calls to the station during the *Freeman* hour indicates rising interest in FEE ideas. We may supplement the program with advertisement spots on popular radio shows, offering our best-selling books such as *Politicized Medicine* and *Clichés of Politics*. The profits earned from the sale of books may help us to subsidize the "Freeman Radio Magazine" program and other *Freeman* promotion.

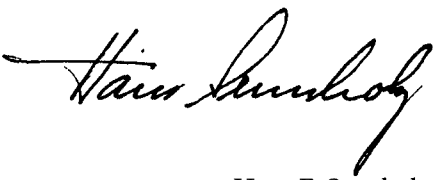
We expect the advertisement to bring rich fruit in sales and subscriptions. This expectation is supported by our 1994 Book Catalogue which lists 280 titles rather than 125 in the 1993 Catalogue and just 55 titles in earlier catalogues. Our book business has risen significantly in 1993 and is expected to soar in 1994.

In 1993, the lecture and seminar staff was as busy conducting meetings at FEE headquarters as it has ever been; it held eleven meetings of which three were week-long seminars. The senior staff also lectured from coast to coast to various audiences of which Russian educators in Houston, Atlanta, and Durham, N.C., were most noteworthy. In 1994, FEE will make a concerted effort to create a network of "Freeman Clubs" or "Freeman Societies" which will meet regularly using FEE material and FEE speakers.

We are in the process of launching a post-graduate education program which will call on the knowledge and ability of a number of young economists. The program will impart in-depth education in Austrian economics and classical liberal political philosophy and offer advanced degrees through a tutorial college or by FEE itself as soon as it is legally chartered to confer academic degrees.

There is much life at FEE because contributions are up some 25 percent over 1992 giving, exceeding the million-dollar mark for the first time in FEE history; publication income more than doubled. Expenditures are held below the level of income, always operating in the black, which instills confidence and encourages us to search for new horizons of service. We are confident that, in the coming year, FEE will continue to pursue its noble task with vigor and dedication.

This report hopefully answers many questions about FEE. Resembling our monthly reports to FEE trustees, it seeks to reach out to more than 10,000 loyal FEE donors, to inform and give account for the trust they have placed in us. In the true sense of the word, they are our silent partners who make all our efforts possible and to whom we are accountable.



Hans F. Sennholz
President

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April 9 Round Table
Howard Ruff, the illustrious author of *The Ruff Times*, will reflect on "trickle-down taxation" and other vexatious economic issues.

May 7 Round Table
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racy, our government of the people, by the people, and for the people. They threaten the relevant Nomenklatura. And so one could predict that the appointed 500-person task force would not propose individual health-care IRAs as the solution of the medical-care emergency which threatens the country more gravely than the Soviet Union ever did.

Since it has already survived close to a century of vicious misgovernment, the United States is likely to survive even the current misrule. But it's a close question. Health costs which already constitute a very large fraction of the gross national product have been climbing at a rate of 14 percent per year, and now the President swears that he is going to make socialized medicine universal in the United States. At the same time, the federal deficit is growing at a rate which makes repudiation of the national debt—probably in a way that deceives the unwary—a virtual certainty.

The private watchdog organization called Citizens Against Government Waste points out that the U.S. deficit for 1992 is actually $342 billions, not the $290 billions being reported, because the government has hidden its diversion of $52 billions from the Social Security funds. It goes on to say that 61 percent of the annual personal income-tax revenue goes to paying the interest on the $trillion-plus federal debt, and that at the present rate of growth, "in less than seven years it will take 102% of all personal income taxes just to pay the interest on the debt. . . . We are rapidly approaching the day when we will no longer be able to make even the interest payments on our national debt and carry on any reasonable level of government service. When that happens our nation will be technically bankrupt."[6]

It would appear that in transforming itself into a personal security agency, the government of the United States has sacrificed the social security that it was designed to preserve and protect. It has also betrayed the general welfare in its preoccupation with the particular welfare of the Nomenklatura and of the wicked with whom they consort, in dooming the poor to eternal poverty and that marvel of the ages, the American economy, to certain imbecility.

III. Life in the Welfare State: Automated Interventionism

Social security as conceived by welfare statists involves the politicizing of all human life. Though retirement, health care, and unemployment seem to be the welfare state's major concerns, such are the inner necessities of politics, the seamlessness of economies, and the linkages in the diversity of human lives, that what starts out as a small effort to deal with a distinct problem turns into a global preoccupation with all of existence. The free society and the rule-of-law state are transformed, as Friedrich Hayek observed fifty years or so ago in *The Road to Serfdom*, into a totalitarian state. With the experience of the total state gained in those years, we now know that totalitarianism freezes human progress and thus turns entropy loose to produce the gray, featureless, sordid ugliness that westerners saw when the Berlin Wall came down.

I have come to use the term "automated interventionism" in my attempts to understand and explain the political necessities which have turned the American interventionist welfare state into a total state during my life. Once the distractions of politicians, professors, and journalists are shunted aside, the process is not hard to understand. Each intervention involves a transfer of funds from the frugal and productive members of society to the greedy, the profligate, and the unproductive. Perhaps it is better to call this an energy-dissipating transfer, as well as a redistribution of wealth.

Anyway, four significant results follow the transfer. First, the victims of the theft are impoverished, both their capacities and motivations diminished. Second, the economy generally suffers from a reduction in productive capital-formation. Third, the success of the redistribution encourages others to try the same method of increasing their wealth and well-being, often including the victims of the first transfer (there are trade journals which offer instruction on

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how to get government subsidies). Fourth, since U.S. politicians run for office continuously, and must in each election keep their old clients happy as well as replace attrition, our federal taxes, expenditures, and deficits grow every year.

The deficits keep growing because our increasingly desanguinated private sector cannot generate enough wealth to cover the ever increasing expenditures. The deficits grow also because as our government exempts the poor from direct taxation, it must tax them indirectly by inflation in order to cover such vital expenditures as, for example, the $6.4 million awarded by Congress to build an "authentic" Bavarian ski resort in Idaho.[7] And so our national debt runs to the trillions.

A national debt in the trillions will ultimately bankrupt the country, if not checked or retired, for the capital-starved economy will ultimately be unable to provide the funds with which to carry the debt-service. Yet, as long as politicians are running for office all the time, the debt is unlikely to be retired. The economy becomes increasingly anemic and listless. The complaints of the do-gooders mount, the interventions of the busybodies grow, the energies of the productive flag, their motivations diminish, and even the incurably energetic and inventive find it impossible to get capital enough to circumvent the inhibitions of the busybodies and to carry the load of the total state.

The end result would be not unlike what we see in the former iron curtain countries. However, I do not expect this end result to arrive. The case for privatization of the worst features of the welfare state is too strong, and there are too many among us who understand the case. Furthermore, the politicians of the western world themselves understand it. For example, the social democrats of Germany seem to be readying themselves to abandon the welfare state in the nineties,[8] as they abandoned pure socialism in the sixties, when Willy Brandt concluded that since capitalism delivered the goods and seemed to be inevitable, it behooved politicians to embrace it and milk it, rather than destroy it. And today in the United States, our own social democrats, who dominate the Congress, seem to fear the deficit more than they fear the do-gooders, some of them, anyway.

Busybody do-gooders who cannot tolerate freedom and free institutions will always be with us, trying to force their will on us, in order to expand the citadel and the state at the expense of the market, the free academy, and the altar. I cannot imagine a world without them, as wonderful as such a world would be.

But they can be held in check. Of course, it will take work and cheerful energy on the part of the proponents of capitalism and freedom to do so, but it has always been and more than likely will always be so. Benjamin Franklin of blessed memory knew this in 1787.

These things do not change. Freedom and the blessings it bestows must be fought and suffered for, eternally. □

1. Spencer Heath, *Citadel, Market, and Altar: Emerging Society* (Science of Society Foundation, Baltimore: 1957).

2. Henry Sumner Maine, *Popular Government* (London: John Murray, 1st ed., 1885), pp. 30–33.

3. Guy Sorman, "Adieu French Socialism," *The Wall Street Journal*, March 17, 1993, p. A-14.

4. Bertrand de Jouvenel, *The Ethics of Redistribution* (Indianapolis: Liberty Press, N.D.), p. 72. The Boutwood Lectures, Corpus Christi College, 1949.

5. Peter J. Ferrara, *Social Security: The Inherent Contradiction* (San Francisco: Cato Institute, 1980), pp. 351–402.

6. Citizens Against Government Waste, "Special Report: Social Security Crisis Update," at unnumbered pp. 2–4 (March, 1993).

7. *Ibid.* at unnumbered p. 3.

8. Peter Glotz, described in *The Wall Street Journal* as a leading German Social Democrat, is quoted as saying that "The welfare state established after 1945 by social democrats 'cannot continue to exist in the same way. . . . Instead we must put more value on the initiative of individuals.'" *The Wall Street Journal*, March 24, 1993, p. A 10. Of the German Social Democrats one may always say, better late than never.

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THE FREEMAN
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GOVERNMENT-CREATED POVERTY

by Joseph P. Martino

Every morning, outside my apartment building, I see a woman sweeping the sidewalk. She wields her broom briskly, marshaling the scraps of paper and dead leaves into an orderly pile. She then sweeps them into a long-handled dustpan made from a cut-down salad-oil can with a broom-handle nailed to it.

Downtown, São Paolo is a clean city. It's kept that way, not only by people like the woman outside my apartment, but by an army of municipal workers, men and women, clad in safety-orange coveralls. Like the woman in front of my apartment, they wield brooms and long-handled dustpans. Their only concession to a greater volume of work is the barrel-shaped push-carts into which they dump the refuse.

Street cleaning is not the only labor intensive activity I see. At a gas station, I count six pumps and four attendants in clean uniforms. Another attendant, in a different uniform, puts air in tires. I am told that there are only one or two self-service gas stations in all of São Paolo.

On the university campus where my office is located, there are numerous well-tended gardens. The campus seems to be covered with flowering shrubs and trees. This beautiful landscape is tended by a host of workers who trim, cut, and plant by hand. The newly planted trees are watered regularly by a man who stands by them, holding a hose.

The contrast with my own campus in the United States is instructive. Planting a tree on my home campus means bringing in a truck-mounted auger which digs a hole in minutes, following which a tree is dropped into the hole by another truck with a crane. Trimming the hedge in front of my building is done with a chain-saw. Leaves are cleaned off the sidewalk with a gasoline-powered blower carried by one of the grounds workers.

One of my colleagues in São Paolo, an economist whose office is just down the hall from the one I use, tells me that Brazilian institutions can afford to use so much labor because wages are so low.

Although no one I meet in Brazil makes the argument, there are those among my colleagues in the United States who would praise the Brazilian arrangement. "It provides jobs for poor people. If you mechanized, they'd be out of work."

Nevertheless, what is true in any other country is true in Brazil as well. You cannot eat what you do not grow. You cannot wear what you do not weave. You cannot live in what you do not build.

Money is simply an improvement on barter. The man who earns his wages trimming hedges does not need to find a farmer with

Dr. Joseph P. Martino is a senior research scientist at the University of Dayton Research Institute. He was a guest lecturer last year at the Institute for Technological Research in São Paolo.

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a shaggy hedge in order to obtain food. He can trim a hedge at a university, and use his money wages to buy food, clothing, or shelter. The key point is that his money wages represent the value to his employer of his labor services. They represent what he has put into the economy. His wages allow him to take an equivalent value out of the economy, in whatever form he prefers.

Low wages mean the worker can take only a little out of the economy. He cannot live very well on that. His wages are low, however, because he has put so little into the economy. In short, his productivity is low.

It will not do to say that a Brazilian university cannot afford to buy a leaf-blower or a chain-saw. That misses the point. Hiring additional workers is cheaper than equipping a few workers with productivity-enhancing tools like chain-saws and blowers. Why is it cheaper? Because productivity in the rest of the Brazilian economy is low as well.

Why does my home university equip its workers with chain-saws and blowers? Why is it concerned with increasing their productivity? Why doesn't it simply hire more workers to use pruning shears and leaf-rakes?

Because it must compete with other employers for the services of workers. If a worker with certain skills can earn a high wage at the local auto plant, my university must match that wage to attract a worker with the same skills. Once forced to pay a competitive wage, my university must increase the worker's productivity by equipping him with chain-saws, blowers, and other tools. In short, forced to match the going wage, my university must invest in capital equipment so its employees can match the productivity of equivalent workers in the rest of the economy. That is, high industrial productivity is the driver which forces all other U.S. employers to increase their workers' productivity, by threatening to draw them away.

Likewise, in Brazil, all other employers compete with industry to attract workers. Since productivity is so low in the rest of the economy, the university whose campus I am visiting does not need to provide much in the way of productivity-enhancing tools. Since other Brazilian workers do not put much value into the economy, they cannot take much out either, and employers such as the university, the petroleum company, and the streets department of the city, can pay low wages and still attract workers. Total output can be increased more cheaply by hiring more workers than by investing in capital equipment.

Why is productivity so low in Brazilian industry? A visit to a combination sugar mill and alcohol distillery helps explain why. My companion, also from the university, has been trying to convince the mill managers to install new equipment which would save energy, cut expenses, and increase profits. The savings would repay the cost of the new machinery in less than three years.

Our host, the chief engineer of the mill, explains the situation in simple terms. The cost of the machinery would exceed the mill's available cash. The managers would have to borrow the money. The current real interest rate is 40 percent per year, over and above the inflation rate of approximately 1 percent per day. The interest on the loan would more than eat up the savings from the new machinery. Part of the mill's current profits would have to be used to meet interest payments, and they would never pay off the principal of the loan. My companion admits ruefully that the interest rate on his credit card is 48 percent *per month*.

Why are real interest rates so high? A U.S.-trained faculty member from the business school of the university explains the problem to me. The external and internal debt of the Brazilian government is absorbing nearly all the capital the nation can raise, just to pay interest and avoid default on the loans. This enormous drain on the economy prevents all industry, not just one sugar mill, from modernizing and increasing the productivity of Brazilian workers.

How did the Brazilian debt become so high? During the "oil shocks" of the 1970s, the Brazilian government made the same mistake many other people made. They assumed the price of oil would remain high. They borrowed heavily against their antic-

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ipated oil revenues. They intended to use the money to force economic growth. Unfortunately, for the most part they spent it on uneconomic industries, following the then-popular "development economics" doctrine of "import replacement." Worse yet, they spent much of it on showcase projects like roads in the Amazon which have since been abandoned, on the showplace city of Brasilia, and similar extravagances.

Now the chickens have come home to roost. The oil cartel failed, as all cartels do eventually. The price of oil is down. Since the borrowed money was not invested productively, there is no income stream from it to meet interest and repay the loans. The present Brazilian government, in order to maintain its credit rating, is making repayments from current savings. The high inflation rate is in effect a tax on savings, allowing the government to siphon off the nation's savings. Virtually none of Brazil's current savings are available to invest in industry.

By attempting to force economic growth with borrowed money, the Brazilian government ended up destroying the possibility of economic growth.

That is why Brazilian industry has such low productivity. That is why it isn't drawing workers away from low-paying jobs. And that is why the woman outside my apartment building sweeps every morning with a badly worn broom and a homemade dustpan. □

THE FREEMAN
IDEAS ON LIBERTY

KEEPING BAD COMPANY?

by J. Wilson Mixon, Jr.

My eight-year-old son had climbed the wall of the nearby convent and was busily helping himself to some apples when the nuns apprehended him and his gang of four. When informed of his misdemeanor, I reacted like any other young parent: I blamed the company he was keeping. My innately blameless child had obviously fallen in with bad company. Time has taught me that he was, in fact, doing what young boys do.

A recent *Daedalus Books* catalogue brought this incident, now two decades past, back to mind. Bemoaning a lost rain forest, as chronicled in one of the catalogue's offerings, an editor lamented a world "where the government has lost control to bankers, builders, and outlaws." The government, whose innate tendency is to do the right thing for the environment, has been keeping bad company.

Maturity and experience provided perspective regarding my son's mischief. By now we have seen overwhelming evidence that when government defrauds its citizens, wastes resources, and behaves in a generally unseemly fashion it is not being misled by bad company; it is just doing what governments do. Why don't we find this evidence compelling?

Albert Jay Nock explains why so many

Dr. Mixon is Professor of Economics at Berry College, Mt. Berry, Georgia.

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repeatedly give government one more chance: "Republicanism permits the individual to persuade himself that the State is his creation, that State action is his action, that when it expresses itself it expresses him, and when it is glorified he is glorified."[1] They do not find the evidence compelling because they choose not to.

The misty-eyed, anthropomorphic view of the State is entirely consistent with the modern intellectual view, fathered by Rousseau. Paul Johnson describes this view: "The rich and the privileged, as an ordering force, would be replaced by the State, embodying the General Will, which all contracted to obey."[2] Obedience is entirely appropriate, since Rousseau assures us, "The General Will is always righteous."[3]

The General Will is echoed in Lincoln's phrase "of the people, by the people, and for the people." Nock describes this phrase as "probably the most effective stroke of propaganda ever made in behalf of republican State prestige."[4] Certainly, Lincoln's sentiment shifts the presumption toward the State. Given this sympathetic view of the State, the citizen, as Nock says, "Looks on its failures and malfeasances with somewhat the eye of a parent, giving it the benefit of a special code of ethics. Moreover, he has always the expectation that the State will learn from its mistakes, and do better."[5]

Among recent issues, this abiding faith in the State's ability to reform itself is most obvious where the environment is concerned. As a result, serious analysts too often favor putting the fox in charge of the henhouse. The WorldWatch Institute observes, quite correctly, that "national land use policies foster degradation. . . . For example, the governments of Brazil and Indonesia—supported by World Bank loans—have sponsored resettlement programs that encourage people to clear tropical forests to create new cropland, even though that land will only sustain cropping for a few years."[6] Nonetheless, it sees reformed government leading the crusade to improve the environment: "Over the next few decades, government policies will encourage investments that promote stability and endurance at the expense of those that simply expand short-term production."[7]

Nock warns us to support moves to reduce government's role in the environment rather than hoping that it will someday cease being hoodwinked by "bankers, builders, and outlaws." If government's role in the environment can be limited, Karl Hess, Jr., said, for example: "Human actions that are detrimental to the land will be limited in space and time. There will no longer be environmental mistakes on the scale of the Homestead Acts, fire suppression, below-cost timber sales [or] the federal grazing program. . . ."[8] Reducing government's ability to get into mischief, rather than quixotically trying to reform the incorrigible, should be our goal. □

1. Albert Jay Nock, *Our Enemy, The State* (San Francisco: Fox and Wilkes, 1992), p. 25.
2. Paul Johnson, *Intellectuals* (New York: Harper and Row, 1988), p. 28.
3. Quoted at *ibid.*
4. Nock, *op. cit.*, p. 25.
5. *Ibid.*
6. WorldWatch Institute, *State of the World, 1989* (New York: Norton, 1989), p. 29.
7. WorldWatch Institute, *State of the World, 1990* (New York: Norton, 1990), p. 189.
8. Karl Hess, Jr., "Sacrificial Lands," *Reason*, June 1993, p. 40.

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THE FREEMAN
IDEAS ON LIBERTY

PROMOTE FREE AND NOT COMMAND CONSTITUTIONS

by Bernard H. Siegan

As the nations and republics emerging from Communism write new constitutions, ominous signs appear that these constitutions will reject the basis for the recent revolutions. Instead of confining it, the constitution writers appear to be establishing a huge economic role for government.

A major, if not *the* major, reason for the fall of Communism is economics. Compared to the capitalist states, the Communist countries were economic disasters, far behind in individual income and material comforts and conveniences. Thus, as was apparent to any traveler, life for the average citizen was considerably better in capitalist West Germany, Taiwan, and South Korea than in Communist East Germany, China, and North Korea.

Yet most Communist leaders were no less interested than capitalist leaders in providing a better life for their constituents. They imposed every conceivable law toward that end and were ever ready to adopt new regulations "in the public interest." As a result, the Communist nations had an abundance of laws, but as it turned out, never of food, clothing and shelter. The problem was that Communism identified the public good with ever greater government authority.

Bernard H. Siegan is Distinguished Professor of Law at the University of San Diego Law School and has advised several Eastern European nations on constitutional matters.

By contrast, the market-oriented countries achieved much more good for the people by following an opposite principle, equating the public interest with individual freedom. Capitalist countries such as the United States rely on individual ingenuity and productivity to improve and advance human society. History confirms that free minds, hearts, and bodies account for the greatest societal achievements.

Unfortunately, lawmakers in the former Communist countries may be ignoring this great lesson. Consider, for example, the recommendations of the Ukrainian Parliament's Constitutional Commission. In the June 1992 draft, it proposes constitutionally mandating a lavish program of entitlements and benefits including: Rest, leisure, paid vacations, "fair" and "satisfactory" wages, and other welfare benefits for workers, minimum living standards, equal pay for the same amount of work in accordance with its quality and quantity, free medical service, safe environment and foodstuffs, free education, and a reduced work period for mothers with young children, minors, people with limited ability to work, and those engaged in physically demanding labor or working in harmful environments.

The proposed constitution would thus impose serious regulatory and monetary restraints on the private sector as well as on the political process. These controls are not

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consistent with aspirations for freedom and abundance.

They rely on the erroneous idea that people are dependent on government benevolence for their well-being. To prosper and provide abundantly the material necessities of life, Ukraine must encourage private ownership and investment. A constitution that strongly protects economic liberties will attract both domestic and foreign investment. Studies show that the most prosperous nations are those that strongly protect private property and enterprise.

If the Ukraine economy is poor, how will it provide for the host of entitlements and conditions the constitutional draft seeks to bestow? If the entitlements are satisfied, how much will be left to pay for the armed services, police and fire protection, and installation and maintenance of streets, sewers, and water mains? A nation must limit the tax burden lest it destroy the economy.

To be sure, the proposed Ukraine Constitution does provide protection for ownership and investment, but in language hardly comforting to would-be owners or entrepreneurs. The right of property supposedly is secured, but it "must not contradict the interests of society as a whole or of individual citizens." This exception is big enough to consume the protection.

The former Communist nations should look to the U.S. Constitution as their model. Its protections are negative in character. They are intended to prevent the enactment of laws that stifle opportunity and self-improvement. The U.S. Constitution does not impose affirmative economic obligations on the government. Liberty, in the U.S. constitutional sense, means being immune from government coercion.

The benefits flow to both the individual and the society, as James Madison, the principal architect of the United States Constitution, once stated: "I own myself to a very free system of commerce, and hold it as a truth that if industry and laborare left to their own course, they will generally be directed to those objects which are the most productive, and this in a more certain and direct manner than the wisdom of the most enlightened legislature could point out."

A constitution that protects both liberties and entitlements is incoherent and very difficult to interpret. It seeks to accomplish two diametrically opposite goals: reducing and enlarging government. Moreover, guaranties of entitlements in a constitution that authorizes judicial enforcement of its provisions will jeopardize the judiciary's protection of liberty. (The former Communist states are according their high courts the power to enforce their constitutions.)

To enforce the entitlements, the judiciary might well mandate imposition of additional taxation and spending, and neither the people nor the legislature would be able to control this power. Taxing the people and spending the receipts are peculiarly legislative powers, stemming from the idea that only the people, acting on their own or through their representatives, are entitled to decide how they will utilize their own resources. (In the United States, the principle of "no taxation without representation" is among the most sacred.)

Similarly, a court may implement constitutional provisions that require a clean environment, adequate medical service, or fair wages by imposing personal monetary requirements on owners and entrepreneurs, contrary to their contract and property rights. Thus, constitutional efforts to provide government benevolence would give the judiciary dictatorial control over important public and private decisions.

For some people in nations emerging from Communism, life is not comfortable these days. The fault lies not with capitalism but with the difficulty of converting a backward economy to a modern one. Most government-owned industries in these nations cannot compete successfully in world markets. They produce goods and utilize production methods that are antiquated. They lose much money and must either be closed or sold to private investors. Unfortunately, either alternative creates unemployment. But there is no other way for a nation to convert to a viable economy which in time will produce a high standard of living. □

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THE FREEMAN
IDEAS ON LIBERTY

THE WOMEN'S AGENDA

by Deborah Walker

I am often asked, "What is this 'woman thing' about anyway?" or, "Why is there a woman's movement or a feminist agenda at all?" Both men and women have their own ideas about this social movement and what they want to see come out of it.

Although I speak only for myself, I hope I convey the thoughts of many when I say that generally women are asking for three things: (1) equality under the law, (2) more options in society: that is, *opportunities* to expand the roles they play in society, and (3) as much *respect* and *recognition* as men have in those roles, while maintaining respect in the traditional roles as well.

A truly free society based upon classical liberal principles certainly should provide women with legal equality. Unfortunately, the woman's movement now goes beyond this and asks for special privileges under the law. In my opinion, this is wrong. If women want to live in a free society offering economic freedom, then they must realize that with freedom comes responsibility, and that respect and recognition must be *earned.* These cannot be given to anyone, especially by government.

Before I continue, let me make three general statements upon which the rest of my analysis will rely:

(1) Good economic analysis is sex-and-gender neutral. Both men and women act purposefully.

(2) Entrepreneurs go into business to make money! This is not only noble and honorable, it is also socially responsible. Adam Smith was right: Responsibly acting in one's own self-interest will benefit others.

(3) Economic freedom, indeed freedom in general, is a desirable goal in and of itself. Economic freedom may also have desirable consequences, but it is valuable for its own sake. Those of us who value freedom always seem to be forced to argue that the outcome of freedom is better than the outcome of government intervention. This is unfortunate since no one ever knows the particular outcomes of choices made in a free economy. It is doubly unfortunate because the question of whether freedom itself is desirable is lost in the debate. It is not even asked!

The Business of Business

Many people, most academic feminists among them, seem to have forgotten that the goal, the bottom line, of business is to make money—something often regarded as evil and unethical. Instead, businesses supposedly exist to employ people. Furthermore, businesses are supposed to employ people they do not want to employ and to pay them wages they do not want to pay. Businesses are also supposed to exist to pay for everyone's health care, or provide child care, or make sure everyone is taken care of in retirement. With regard to women especially, businesses are considered social institutions designed to accommodate pregnancies or other family concerns. This

Dr. Walker is Associate Professor of Economics at Loyola University in New Orleans.

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attitude toward business is detrimental to women. Women, in particular, should applaud the motive of making money, which drives a free market economy.

Under free markets, the basic economic questions of what and how things are produced, and who gets what, are decided through a process of competition for *monetary profit*. I produce something and I sell it to consumers. If consumers like it—more importantly, if a lot of consumers like it—I make a lot of money. You notice this and decide you want a piece of my pie. You start competing with me. Resources are moved out of unprofitable activities and into profitable ones. Prices, and the profits that emerge from them, are the all important information signals which guide the movement of those resources. And, yes, it is all based on the Almighty Dollar!

Oh, what a heartless, cold system. Certainly not a system that women would have devised. After all, women are the nurturing sex, the great civilizers of society. Capitalism must be a man-made ruthless system that operates to keep women in their place and elite capitalists in power.

Woman's Best Friend

Is this true? Can women, having a different, more civilized mindset than men, come up with a better system? I challenge anyone to try. But in the meantime, let me say that I think capitalism is not a heartless or ruthless system, but just the opposite. Furthermore, capitalism and the economic freedom upon which it is based, is every woman's best friend (for the same reasons it is every man's best friend). And this is true for any woman, regardless of her aspirations.

Why? Look around the world, countries without economic freedom and markets are countries where people starve to death on a daily basis, where children die of disease before they have a chance to form their own identities, where people's lives are preoccupied by the business of trying to stay alive. Capitalism feeds people, keeps them healthy, provides them with leisure time to play catch with their kids and have romantic picnics with loved ones. It is the most humane and socially just system known to men and to women.

Understanding Opportunity

How exactly does economic freedom enter the picture? Economic freedom and capitalism provide the *opportunities* women need in order to broaden the roles they play in society and to gain the respect and recognition they desire.

In order to understand the fundamental way that economic freedom and capitalism create opportunities we have to return to something I stressed earlier—that basic economic lessons apply to both men and women. A strong and prosperous economy is the only environment in which people can broaden their roles *in the ways they desire*. Certainly a central planner can force all women into the factories, for example, and broaden their roles in society (this is what both Lenin and Stalin did). But that is not what I am talking about. An opportunity is something that is seen as something desirable by an individual. Opportunities cannot be mandated because mandates can never be flexible enough to meet the needs of a diverse society.

There are many ways a strong economy creates opportunities, but let me begin with the most basic, yet perhaps most important: job creation. Let us quickly dispel the myth that governments can create jobs. They cannot. A government can move jobs around (and in the process destroy a great many of them) but it cannot create jobs. Job opportunities, which are important because they allow women options in choosing an employer, are created when idle resources become productive resources, or when productive resources become even more productive. *Efficiency* creates opportunities. Efficiency is enhanced in environments where it is rewarded, i.e., under capitalism. This is why I said women should be glad entrepreneurs go into business to make money. In the process of doing so, they create *opportunities*! Thus, *efficiency* is a

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good thing. When women ask for special privileges and special consideration which decrease the efficiency of a firm, they are not only hurting their employer, they could be hurting themselves, or another woman (or man) looking for a job.

Does this mean that businesses should never offer family leave or child care or flex-time? No, not at all. In fact businesses have developed creative ways to keep female employees happy and efficient. But decisions regarding employee benefits must be left to individual firms and not mandated by government. Government does not possess the knowledge necessary to implement programs that will satisfy all businesses and their diverse workforces. Not only do government mandates decrease efficiency, and therefore opportunities, but they also decrease the flexibility employers and employees need to develop programs that will accommodate employee needs while also keeping the workplace efficient.

Free Market Benefits

Here are some examples of what companies are offering without government mandates: (1) support for child care (and elderly care), (2) job-protected leave for childbirth, (3) work at home opportunities, (4) job sharing opportunities, (5) flex-time, including compressed work weeks and coming to work early or late, (6) part-time work, (7) resource and referral services to help employees find child care, (8) pre-tax set-asides which employees can use to pay for child care, (9) sick-child days, (10) disability, which sometimes includes paid or partially paid leave after childbirth.

Interestingly, as I was researching the origins of such programs, I noted one common theme. The programs usually started as the idea of one or more *employees*. These employees approached the firm, not in a hostile "Norma Rae" manner, but with a well-developed plan showing how the firm could better accommodate its employees and not *lose profitability in the process*! This makes sense: only individual employees can know what they need in their lives, and only individual firms know what they can and cannot offer.

Now it may be great that companies are voluntarily offering these benefits. However, it is important to ask if companies are offering them because they are efficiency-enhancing over the long term (and in some cases in the short term as well). Such company benefits are either efficiency-enhancing—they promote economic growth, job creation and employment options—or they are efficiency neutral, but value-enhancing to those involved.

You might reply that companies are not offering these options for reasons of efficiency, but because they are afraid of lawsuits. For example, a woman can sue a company claiming she was not promoted as quickly as others, or was put into a "mommy track" because of her decisions regarding pregnancy and motherhood. To avoid costly lawsuits companies may try to keep women "happy" by offering other options. To the extent this occurs its impact is negative for two reasons: (1) it clearly violates the freedom of contract, which includes the option of not making a contract at all, and (2) it leads to inefficiency which, I repeat, decreases opportunities. In these instances the actions of highly educated professional women who sue or threaten to sue, and thereby impose inefficiencies in the job market, are subsidized by the unemployed, many of them single mothers who cannot find a job at all!

It is also true that a firm may actually choose "inefficiency." The owners of a firm may have personal preferences for less monetary profit and more employee benefits. Ben and Jerry's Ice Cream *might* be a good example of this. I say *might* be because I am only assuming the company could make more money if it changed its benefits. I do not know. The company is famous for its so-called social-mindedness. It offers two weeks of paid paternity leave and four weeks of paid adoption leave, with extended leave without pay, and three pints of free ice cream per day, among other benefits. When entrepreneurs such as Ben and Jerry freely choose such arrangements, not because of

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the threat of lawsuits, but because of their personal ideologies, I see no problem—except that I am glad most entrepreneurs want to make money, because that is the incentive that creates opportunities. If every business operated for nonpecuniary reasons there would be a few lucky employees and many unlucky, unemployed people!

Free to Choose

It is also important for women that *choice* remains a priority, allowing firms to offer cafeteria-style benefit programs. Under many of these programs, employees who use particular benefits also pay for them, or bear the brunt of the cost. This is important for reasons of efficiency, for employee morale in general. In some cases this will not be feasible. For instance, a firm may operate an on-site day care center funded by decreasing the money wages of all firm employees. In this case, employees without children subsidize those who use the day care center. But if a childless employee does not like this situation, it is important that he or she can choose to work for another employer.

This is why a strong economy is important. A strong economy, free of government interference, will give people choices. Federal mandates, such as the Family Leave bill, passed last year, are anti-choice in that they force businesses to offer a particular benefit, decreasing choice within companies, and they destroy efficiency, decreasing choice among companies.

Sports Cars and Mini-Vans

Let me be more specific by using an analogy. The employer/employee relationship is a market exchange just like any other market exchange. While it is probably one of the most important exchanges a person makes, it is an exchange nonetheless. In this way employers search for employees, and employees search for employers. When you buy a car you search for the one with the features and options you personally desire. For example, a mini-van is very different from a sports car. Now wouldn't we all be upset if the government mandated that all single people must buy mini-vans instead of sports cars, or that all sports cars purchased must be equipped with a child seat, which the single person does not want? Just as people want to choose from a variety of vehicles, they also want to choose from a variety of employers. Everything from employers who offer very minimal benefits but very high money wages (for the sports car crowd) to employers who offer paid paternity leave and on-site child care (for the mini-van crowd). A person should be able to choose employers based upon personal lifestyle choices. This does not by any means preclude an employee from negotiating new arrangements or benefits with an existing employer. Employer options can and should change over time just as options on mini-vans and sports cars change over time.

More Opportunities

There are two other important ways economic freedom or capitalism opens opportunities for women. First: *technology*. Capitalism created the technology which changed our economy from one based on physical strength (giving men a comparative advantage in many economic activities) to one where physical strength is no prerequisite for economic success. This alone is reason enough for women to applaud capitalism. But technology has also opened other doors as well. Household technology (created by capitalists) has made work inside the home much less time-consuming and difficult. Microwave ovens, dishwashers, and electric can openers, for example, are all derivatives of a consumer-oriented economy. Furthermore, technology in the telecommunications area allows many people to shop at home and, more important, work at home. We cannot even imagine what opportunities technology will create in the future.

Second: *entrepreneurship*. Only a free market economy affords women this option, a very important option indeed. The popular statistic often quoted is that women-owned businesses now employ more people than

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Economic freedom and capitalism provide the opportunities women need in order to broaden the roles they play in society and to gain respect and recognition.

the Fortune 500 companies. That is impressive. The opportunities female entrepreneurs create for others in the process of taking on the responsibility of inventing their own opportunities cannot be overlooked.

Women should also keep in mind that a market economy thrives on differences between people. Take the simple act of trade. Trade takes place because I value something you have more than what I have, and you value what I have more than what you have. If we were clones, with the same set of values, there would be no reason to trade. This is an important point because there are differences between men and women. Instead of trying to destroy or hide those differences, I think we should celebrate them. They are, after all, what makes life interesting. Also, by recognizing our differences, the ways we are special, we can take advantage of those differences through entrepreneurial talents that come naturally to women. Economic freedom allows us the opportunity to discover what these advantages might be, or even if the differences between men and women do indeed matter in the marketplace.

My main message to women is that to receive the respect and recognition you rightly deserve as complete human beings you should have the following agenda: (1) With respect to economic policies, less government involvement in all aspects of the economy, including and especially lower taxes, less regulation, and a drastic decrease in the size of government. These policies will give women a strong, prosperous and free economy which will provide the options they desire. (2) Emphasize your own individual responsibility. If you want your employer to change, then take the responsibility of creating your own strategy for that change. But do not expect your employer to sacrifice profit for your lifestyle choices. Be creative and convince your employer that your strategy is a win/win strategy.

The government, instead of making the world a better place for women, is destroying opportunities and destroying individual liberty. Lysander Spooner, in 1882, put it best when he wrote: "If the women, instead of petitioning to be admitted to a participation in the power of making more laws, will give notice to the present lawmakers that they are going up to the State House, and are going to throw all the existing statute books in the fire, they will do a very sensible thing."[1] □

1. Lysander Spooner, in *Liberty*, vol. 1, June 10, 1882, p. 4, cited in *Freedom, Feminism and the State*, ed. Wendy L. McElroy (Washington: Cato Institute, 1982).

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THE FREEMAN
IDEAS ON LIBERTY

ALL OF US ARE EQUAL?

by Tibor R. Machan

When the founders of the American republic declared that "We hold these truths to be self-evident, that all men are created equal," they were not naive, as many of their critics have asserted throughout the ensuing years. They had no notion that men were identical to each other, that there were no significant differences among men. And they were not sexists, either, even if in their time some of what mattered politically had not been applied to women. (The division of labor that rested on gender had been much more relevant in those days!)

What the founders were saying is that for purposes of understanding their actions of breaking off from Britain, all human beings must be viewed as having the same rights—to Life, Liberty, and the Pursuit of Happiness. In short, we are all equal as human beings. We are all equal in facing the task of living our lives, of choosing what to do, and in seeking to better our lot. And no one must upset this equality. No one must violate anyone's rights. That is the equality the founders had in mind. It is also the equality with which the American political tradition is most closely identified. Furthermore, it is the equality that no other nation, despite all the rhetoric to the contrary, has ever managed to deliver within their legal systems.

But "equality" is one of those terms, like "democracy" or "freedom" or "rights," that tempts many people to play fast and loose with its meaning. So, for example, we hear all sorts of claims about how America fails to treat people as equals, or how there is no economic or social or gender equality in this society. As if this had something to do with what the founders set out to establish. It does not. They did not pretend that people have to be equal in all respects—they knew better than to attempt the impossible or, for that matter, to see this as desirable. The kind of equality that critics of America's basic political ideal have in mind is not only silly but quite unattractive.

A recent development in our culture puts this point quite starkly. Some time ago one of the TV magazine programs ran a story about a young girl whose hearing could be restored through complicated surgery. The girl had no hearing at all but after surgery she could hear, plain and simple. Surely prior to surgery she was unequal, as compared to those who could hear, regarding the task of hearing what there was to hear around her.

But when this surgical procedure was brought to light, a number of other deaf people protested. They found it offensive to suggest that there is something wrong with them. They found it insulting that it was suggested that they were not equal to those who could hear. And they protested the actions of the little girl's parents who opted to have the operation performed, since this would amount to some kind of belittling of them.

By now this line about the hearing-

Tibor R. Machan is Professor of Philosophy at Auburn University, Alabama. His book The Virtue of Liberty *is being published this month by The Foundation for Economic Education.*

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impaired has spawned articles and books across the country, and those who had the perfectly sensible view that being deaf is something of a disability seem to be baffled by it all. Their bafflement is understandable—it is akin to what happens when some radical environmentalists indict the rest of the world for liking technology, for welcoming modern medicine or agriculture. Something very fundamental—something "we hold to be self-evident"—is being challenged and most people who are concentrating on solving the problem faced by the disabled simply haven't given it any thought that there might be doubters about the value of what they are doing.

But, of course, there are. In a free society, it is possible to make an issue of nearly anything—including whether being deaf is a disability. Next it will be argued, by some, that being blind or one-legged is not a disability but merely a different form of living. And there is some remote rationale behind such claims. One can imagine a world in which there are human beings who lack sight or hearing. That seems no different from the actual world in which human beings have no capacity to take to the air, as birds do. If we had human beings who could just take off and fly, those who could not would then be called disabled for lacking this capacity.

Yet, we are essentially the sort of being that can hear and see. So when some of us cannot, that is a disability, just as if a whale lacked fins or a bird broke a wing. Indeed, the sort of egalitarianism those who protest the remedying of hearing impairment advocate calls into question the idea of injury or harm. If I broke your arm, would I be injuring you or just changing you from someone with a certain sort of limb to someone with another? If your eyes got poked out by someone, would this be assault or mere alteration?

Egalitarians who advocate leaving things be because they are all of equal value fail to appreciate the notion of "essentially" or "by its nature." If a fish swims, that is natural to it, but if all a human being could do is swim, that would be a disability. All of the improvements we make in not just our lives but the lives of other beings—as when we take injured birds and repair their wings—depends on this idea. The attempt of some people, for purposes of some kind of warped political agenda, to place the matter in doubt is sad. It would be wiser to seek remedies for disabilities than to pretend that they do not exist. □

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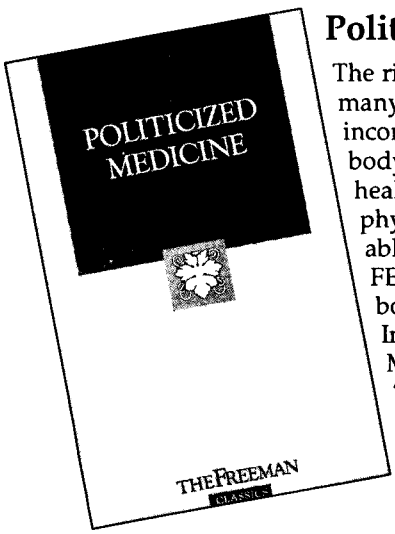

Politicized Medicine

The right to health care services and benefits, which so many are proclaiming today, is merely the right to seize income and wealth from other individuals through the body politic. Further government intervention into health care will only make matters worse. For the busy physician or commuter, *Politicized Medicine* is now available on six audio cassettes professionally prepared for FEE by one of America's leading producers of audio books.

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THE FREEMAN
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MOTHER'S LITTLE HELPER

by Doug Bandow

That the federal government is expansive and expensive is evident from the fact that Uncle Sam is spending some $1.6 trillion this year and will become ever more profligate as the push for a national health program accelerates.

But such numbers give little indication of how intrusive is the federal government. A far better measure is provided by J. Robert Dumouchel's new *Government Assistance Almanac*, which proudly announces that it catalogues all "grants, loans, insurance, personal payments and benefits, subsidies, fellowships, scholarships, traineeships, technical information, advisory services, investigation of complaints, sales and donations of federal property."[1] The result is 850 pages of pork, along with detailed instruction on how to grab a slab or two.

Indeed, if you are a businessman frustrated by international competition, a potential homeowner after a cheap loan, a college student desiring educational assistance, or most anyone else—especially a farmer—looking for a federal handout, the *Almanac* is the book for you. Not only does the volume list all 1288 grant programs, but, explains the publisher, it "is bound and conveniently indexed, helping users target their benefit search."

Where to start? If you're hungry, try the Agriculture Department. There is, for instance, the Food Distribution program, by which surplus federal commodities are donated. There are Food Stamps, which most everyone is familiar with, as well as the school Breakfast Program, which underwrites breakfasts for school kids. Similar is the National School Lunch Program, Special Milk Program for Children, and Summer Food Service Program for Children. On top of these are the Special Supplemental Food Program for Women, Infants, and Children; Child and Adult Care Food Program; Nutrition Education and Training Program; Commodity Supplemental Food Program; Temporary Emergency Food Assistance; and Food Commodities for Soup Kitchens. Special Groups, too, are eligible for Uncle Sam's helping hand through the Nutrition Program for the Elderly, Food Distribution Program on Indian Reservations, and Nutrition Assistance for Puerto Rico.

But USDA does far more than just help people eat. The Foreign Agricultural Market Development and Promotion program pays to advertise farmers' products abroad—grants range from $158,000 to $18.4 million. The Department aids forestry research; one recent project, explains Dumouchel, was an "experimental system for continuous press drying of paper." Grants go to localities and states for roads in counties in which federal forestland or grassland is located. Minne-

Doug Bandow is a Senior Fellow at the Cato Institute and a contributing editor to The Freeman.

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sota has its own special grant program "to share receipts from national forest lands."

The Rural Electrification Administration subsidizes electrical co-ops and telephone utilities. It also offers Rural Economic Development Loans and Grants to promote business, as well as Distant Learning and Medical Link Grants for educational and medical computer networks. The Soil Conservation Service doles out money and advice; the Agricultural Research Service, not surprisingly, gives grants for research. And then there is the Agricultural Stabilization and Conservation Service, which made 250,000 new loans in 1991. If you want money for cotton, dairy, feed grains, wheat, wool ("National Wool Act Payments"), forestry, rice, or livestock, just wander down to USDA. There is even the Grain Reserve Program, which, after you have been paid to grow your crop, will provide "incentives to farmers to place harvests in storage, thus increasing prices of the grains by lowering the marketable supply." Such a deal: paid to grow it and then paid to store it!

But you really don't have to be a farmer to benefit from Uncle Sam's largesse. Just living near farmers is enough. Consider the Farmers Home Administration with money for destroyed property, housing for laborers, farm operation, enlarging farms, low-income rural housing, improving the site of low-income rural housing, rural recreation facilities, rental property, repairing homes of "very low-income" people, rural waste disposal, preventing floods, rural schools, rural businesses, rental payments by low-income senior citizens, rehabilitating low-income rural housing, rural foundations, and mediating disputes between rural borrowers and creditors. But wait—there's more: technical assistance, aid for Indian tribes, the Intermediary Relending Program, and emergency assistance to comply with the Safe Drinking Water Act.

While farmers have their own department, most other businesses have to line up at the Commerce Department. The Census Bureau provides technical assistance and information, the International Trade Administration counsels exporters—when it isn't busy blocking the entry of inexpensive, quality imports—and the Export Licensing Service and Information provides "information, training, seminars, and other assistance on export licensing requirements, regulations, and policies." In 1992 alone, reports Dumouchel, the Bureau counseled 309,000 exporters, handled 100,000 phone inquiries, and held 308 export licensing seminars.

But the real money is elsewhere. The Economic Development Administration, provides grants—149 in 1991—"for public works and development facilities." There are also guaranteed loans to create jobs through redevelopment projects, as well as grants for renovating public works, planning economic development, and assisting firms hurt by imports. One EDA gem: "Special Economic Development and Adjustment Assistance Program—Sudden and Severe Economic Dislocation and Long-Term Economic Deterioration."

The National Oceanic and Atmospheric Administration provides loads of cash for research, fish conservation, fisherman's compensation, research, fishing ship construction, coastal management, research, climate centers, marine sanctuaries, and research. The National Telecommunications and Information Administration, National Institute of Standards and Technology, and National Technical Information Service all provide information, technical assistance, and money to promote telecommunications, technical standards, and technical information.

The Commerce Department also has a Minority Business Development Agency, which spares no expense to promote minority-owned businesses. There are, for instance, Minority Business Development Centers, which receive grants to offer technical assistance to minority businesses, a half dozen Indian Business Development Centers, and Minority Business Resource Development grants "for activities advocating the expansion of opportunities for mi-

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nority business firms," by, among other things, "decreasing minority dependence on government programs"!

The Defense Department isn't a particularly fruitful goose to be plucked, unless you want money for help in "controlling and eradicating obnoxious plants in rivers, harbors, and allied waters." But the Department of Housing and Urban Development remains a fount of federal subsidies. In fact, there is no housing that is *not* backed by HUD. Do you want to rehabilitate run-down property? Get an insured loan under Rehabilitation Mortgage Insurance. Do you want to buy a mobile home? Get an insured loan under the Manufactured Home Loan Insurance. Want to construct a condominium? Check out the Mortgage Insurance for Construction or Substantial Rehabilitation of Condominium Projects. There's also mortgage insurance to construct facilities for medical group practices; guaranteed mortgages to build one- to four-unit homes. Insured mortgages for homes for disaster victims and low-income families. The government will also guarantee mortgages for "homes in urban renewal areas," "housing in older, declining areas," and "nonfarm homes, or new farm homes on at least two and one-half acres adjacent to an all-weather road, in outlying areas."

HUD also pours forth guaranteed mortgages for cooperative projects, mobile home parks, hospitals, and nursing homes. People seeking to buy units in condominiums, "sales-type cooperative housing units," and leased land can receive federally-backed mortgages. Builders seeking to construct "middle-income rental housing," rental and cooperative housing for the elderly, and rental housing "in urban renewal areas" are all welcomed by HUD. So, too, are "special credit risks," who, so long as they receive counseling from "a HUD-approved agency," have a special program for receiving federally guaranteed mortgages.

Still, the HUD programs go on, page after page: Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures, Rent Supplements— Rental Housing for Lower Income Families, Supplemental Loan Insurance—Multifamily Rental Housing, Supportive Housing for the Elderly, Mortgage Insurance—Combination and Manufactured Home Lot Loans, Operating Assistance for Troubled Multifamily Housing Projects (also known as the "Flexible Subsidy Fund"), Congregate Housing Services Program, Mortgage Insurance—Growing Equity Mortgages, Multifamily Coinsurance, Housing Development Grants, and on, and on, and on.

There's money for the homeless, the handicapped homeless, and "persons with AIDS." There's money to stop housing discrimination on the basis of race, color, national origin, sex, age, or handicap. There's research money. There's money for public and Indian housing. For the latter, Dumouchel helpfully informs us, one should apply to the Assistant Secretary for Public and Indian Housing. The phone number, if you are interested is (202) 708–0950.

Still the money flows. If you are an Indian, or have enough Indian blood to be considered as Indian, the Department of Interior is waiting to hear from you. Consider the Indian Employment Assistance Program. Writes Dumouchel: Its purpose is "to enable American Indians to obtain vocational training and employment assistance. Funds may be used for subsistence, tuition and related costs, transportation. Payments may extend for up to two years—three years for nurses training. Amount paid is based on a financial needs analysis." To get your hands on the loot, all you need be is a member "of recognized tribes, bands, or groups of Indians whose residence is on or near an Indian reservation under BIA [Bureau of Indian Affairs] jurisdiction—in need of financial assistance."

The Department hands out research grants, provides technical assistance, and offers counsel on a variety of subjects. It also gives money to preserve national landmarks and rehabilitate recreation areas.

But wait: There's more, much more! Civil rights programs. Law enforcement grants. Money to prevent juvenile delinquency.

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Grants to compensate crime victims. Cash to help handle child abuse cases involving American Indians. And oodles and oodles of advice, assistance, and money from the Department of Labor for most anything—employment, training, pensions, trade adjustment, migrant farmworkers, safety, disabled veterans, and homeless veterans.

But don't stop reading yet. There are pages of Transportation Department programs, and scores of environmental grants. Even the Internal Revenue Service has money to give—to volunteers who help counsel elderly taxpayers, for instance. There's the Appalachian Regional Commission, the Equal Employment Opportunity Commission, National Aeronautics and Space Administration, and, of course, the ever-helpful National Endowments for the Arts and Humanities. In 1993 the NEA provided 363 grants under Promotion of the Arts—Expansion Art, which, explains Dumouchel, are intended "for arts projects reflecting the culture of minority, inner-city, rural, or tribal communities. Support is available for activities such as professional training of talented persons, financial assistance to small and emerging art groups, instructional activities for pre-school and school age youth."

All in all, Dumouchel has done his job well—too well, for those without a strong stomach. He continues to count the ways by which Uncle Sam wastes our wealth. There's the National Science Foundation and Small Business Administration. The Department of Veterans Affairs. ACTION. The Department of Energy. The Federal Emergency Management Agency. National Council on Disability. And the wonderful Department of Education. One of the winners: Adult Education for the Homeless, with grants ranging up to $500,000. But the real winner is the Department of Health and Human Services. Even with his succinct descriptions, Dumouchel requires *125 pages* to cover the largesse flowing from HHS. One of my favorites: Adolescent Family Life Research Grants. Their purpose: "For research and information dissemination activities concerning societal causes and consequences of adolescent premarital and sexual relations, contraceptive use, pregnancy and child rearing, adoption decision-making."

Dumouchel follows his program descriptions with a wealth of useful information. There are summary tables as to how much hard-earned taxpayer money is being frittered away on each program, a very extensive list of field offices to contact to benefit from the frittering process, and a comprehensive index so that you won't miss even one program for which you might, just might, be eligible.

There may be no better exhibit on why the federal deficit is so hard to cut than the *Government Assistance Almanac*. Everyone may complain about Uncle Sam's unending tide of red ink, but no one wants to cut spending. Indeed, literally everyone has a hand in the till—independent businessmen, individualist farmers, iconoclastic artists, and ordinary middle-class, bourgeois homeowners. Until we change this culture of entitlement, this notion of Uncle Sam as but "Mother's Little Helper," it's hard to imagine how we're going to cut out many of the specific programs detailed by Dumouchel.

So I think it's time that we consider the old adage, if you can't beat 'em, join 'em. I've decided to put the *Almanac* to good use. I'm now looking for grant programs for slightly eccentric, chess-playing policy nerds who believe that it would serve the national interest if the taxpayers took over their mortgages, underwrote their writing, and generally provided them with a good life. With 850 pages of federal loot to choose from, it's got to be there. □

1. J. Robert Dumouchel, *Government Assistance Almanac: 1993–94* (Detroit: Omnigraphics, 1993), 850 pp., $95.

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THE FREEMAN
IDEAS ON LIBERTY

ARE GOVERNMENT STATISTICS NECESSARY?

by Robert Youngblood

I recently received an eye-catching advertisement from the Government Printing Office for *The Statistical Abstract of the United States, 1993*—"The Essential Reference and Research Resource for people like you!" According to some of my think-tank friends, next to national defense, data collection is the best thing the federal government does.

This year's edition features information "keyed to Congressional district," along with "new material on health practices, education attainment, child abuse and neglect, book purchasing, federal debt, military installations, occupational tenure, use of automated teller machines, high tech exports, . . . details on racial and Hispanic groups—and more."

My first thought was: How much does the annual *Abstract* cost taxpayers? I'm sure the $32 price per copy merely covers the printing costs, not the expense of hiring bureaucrats to collect and collate raw data and having firms spend man-hours to fill out copious forms under penalty of law for non-compliance. Consumers also pay—through the loss of goods and services that could have been, but were not, produced because companies diverted resources from output to regulation compliance.

As an entrepreneur I gather much data on my customers. It has been a discovery process for me to learn what information is important to me. My research has helped me to answer such questions as:

- What mix of equipment does a customer now own?
- How often and how much does he order?
- How do seasonal factors affect the ordering process?
- What is the interest rate on leasing new equipment?
- What are the new technology trends?

This information does not come without a cost both in money and time, but it allows me to tailor my marketing and advertising and to better serve my customers.

Many industries and special interest groups lobby Congress to have information gathered at taxpayer expense. But they should finance the collection of pertinent data themselves rather than use the power of government. For example, the banking industry should pay for its own survey of automated teller machines.

The ultimate cost of the *Statistical Abstract* to all of us, however, is some loss of freedom when government uses statistics to manage our lives. □

Mr. Youngblood is a manufacturer's representative living in North Carolina and producer of the radio talk show The Free Market *in Columbia, South Carolina.*

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MORALITY AND WISDOM

by Brian Buckles

President Andrew Jackson believed that "one man with courage is a majority." Today, I believe that one college graduating class with wisdom can change the world.

Like many of my classmates, when I set foot upon this prestigious hilltop four years ago, I was mesmerized. This vibrant city of scholars was a majestic mountaintop when compared with the small, rural high school on the central Illinois prairie from which I graduated with my 32 classmates. Here, at this city set upon a hill, my professors were royalty, and my textbooks offered the keys to true wisdom.

Today, however, my perceptions are different. Of course, my professors have maintained their knighthood. But I have learned that knowledge, by itself, does not lead to wisdom.

The great inventor Thomas Edison said that "we don't know one-millionth of one percent about anything." I would like to add that what we do know, we will soon forget. Years from now, most of us will not remember the marginal cost curves, the conjugations of Spanish verbs, the difference between mitosis and meiosis, or even the political leanings of Charles Dickens. I dare say few of us can remember these things today. What we will always remember and what will be the single most important guiding principle behind each of our lives is something that our classroom instruction has not addressed: morality. Without morals, our knowledge can never become wisdom.

King Solomon, who was hailed as the wisest leader ever to govern any nation, said "be wise and give serious thought to the way you live." Solomon recognized the importance of morals. The young Martin Luther King, Jr., did as well. When he was a graduating senior at Morehouse College, he wrote, "the most dangerous criminal may be the man gifted with reason, but with no morals." But over the past four years, my classmates and I have sat together patiently through countless lectures aimed at convincing us that all truth is relative and that moral absolutes do not exist.

In the meantime, we've seen our inner cities become war zones, chemicals and pornography infect the minds of our nation's youth, teenage children have babies, prisons overflow, and drug-sniffing dogs and metal detectors placed at schoolhouse doors. It seems that rather than standing for something, America has fallen for anything.

My generation must change all of this. We can begin today by recognizing the obvious: the statement "there are no absolutes" is itself an absolute. When our professors appealed to Einstein's groundbreaking theory of relativity for ethical purposes, they stretched it beyond its legitimate scientific application. They ignored Einstein's own personal warning that his theory of relativity does not apply to ethics.

Not only must we understand the limitations of our knowledge, but we must also

This article is adapted from commencement remarks given by Mr. Buckles at Washington University in St. Louis in 1993. A summa cum laude *graduate in economics, he will attend law school in the fall of 1994.*

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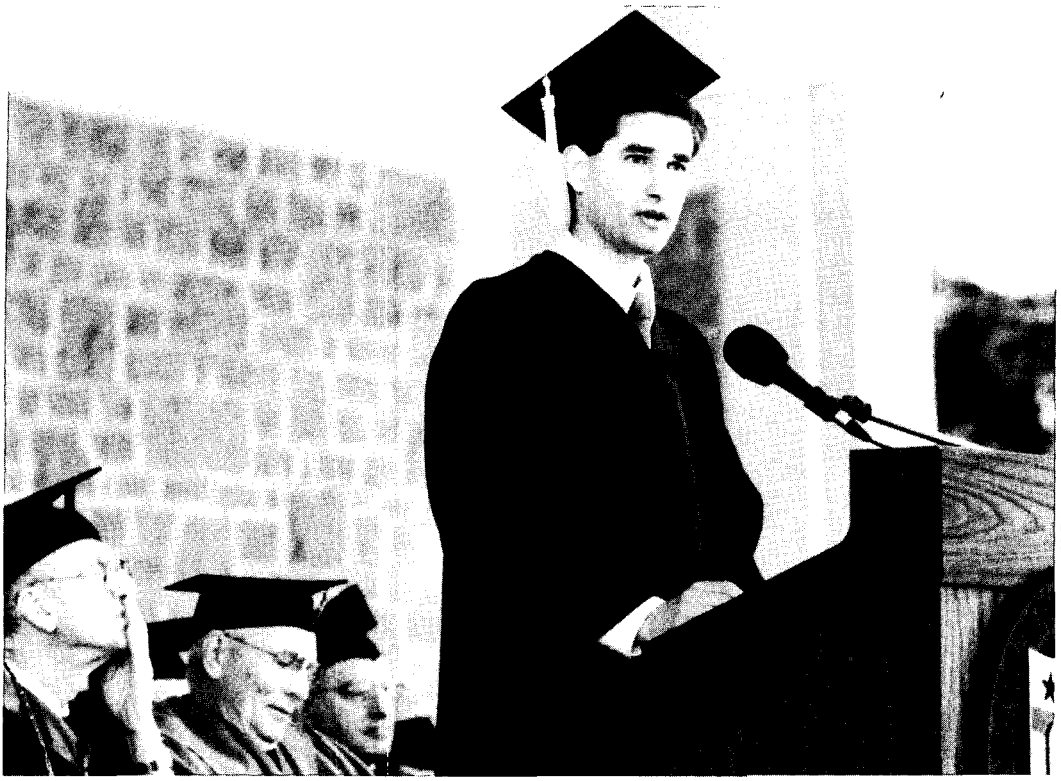

COURTESY OF WASHINGTON UNIVERSITY

Brian Buckles, delivering his commencement address at Washington University, 1993.

consciously strive to become examples of morality for our nation. As Thomas Jefferson put it, "In matters of style, swim with the current; [but] in matters of principle, stand like a rock." And what better principles to pattern ourselves after than those of George Washington whose name this university bears?

When Washington University was inaugurated on April 23, 1857, the first Chancellor, Reverend William Greenleaf Eliot, explained in his speech that the name Washington "was admirably adapted to the plan proposed, namely, . . . to educate the rising generations in that love of country . . . and in that faithfulness to God and Truth which made [George] Washington great." Clearly, Chancellor Eliot and the other founders of this university recognized the need for a moral component in higher education. They thought that by naming this university for George Washington, they would provide an outstanding example of morality for future students.

On this occasion, then, we are justified in turning to George Washington as our moral mentor. The historian Cyrus R. Edmonds, who lived during Washington's day, once said "the elements of [Washington's] greatness are chiefly to be discovered in the moral features of his character." The Duke of Wellington, who was a British statesman, general, and enemy of Washington in the Revolutionary War, said that Washington had "the purest and noblest character of modern time—possibly of all time." Like all great leaders, George Washington was not representative of the world's population.

In his Farewell Address, Washington explained the basis of his morality. He said, "Let us with caution indulge the supposition that morality can be maintained without religion. Reason and experience both forbid us to hope that national morality can prevail in the exclusion of religious principles."

As we enter the wilderness ahead, never forget that without morality, true wisdom is unattainable. The facts we have learned at this place will only fade with time, but morals will guide us through life. □

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THE FREEMAN
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MONEY AND INFLATION

by Lawrence M. Parks

In his speech to the Economic Club of New York last year, Federal Reserve Chairman Alan Greenspan used the word "inflation" no less than 50 times. In the Chairman's speeches and in Congressional testimony, he has said of inflation: It is going away. It is not coming back. It is not a problem. It is diminished. It is nonrecurring. It is subdued. There's no re-emergence. We've learned our lesson.

So if inflation has ceased to be a problem, why does it occupy Mr. Greenspan's thoughts so much? Perhaps inflation is more of an issue than he is letting on.

Why should inflation just be a measure of the prices of some arbitrary basket of items in the consumer goods market? Why exclude the price level of the capital and real estate markets? After all, money isn't always spent on goods and services; some of it is invested in stocks and bonds and real estate. By any yardstick, stocks and bonds have gone way up in price in the last several years.

Further, the government has enacted laws and regulations that effectively persuade prudent people to put or keep money in the capital markets, thereby decreasing money that might otherwise be spent in the consumer goods market. For example, about $800 billion in IRA accounts by law must be invested only in stocks and bonds. Large amounts are also tied up in Keoghs, Pension Plans, 401-K's and other quasi-savings plans that must be similarly invested.

Perhaps if people had free use of these monies, some might be used to improve homes, buy cars and other consumer items, which would certainly spike the price level of the consumer goods market and the nominal inflation rate. Clearly, there is vast deferred inflation. Some day people will spend that money, and that's when nominal inflation will pop.

Similarly, because of inflation over the last two decades, if people sell appreciated property, capital gains taxes will many times result in a loss of capital. The result is that money is kept in the capital markets for tax purposes, and is kept out of the consumer goods market. Thus, people have been misled about the purchasing power of their savings which retain value provided they are never spent in the consumer goods market. Again, there is vast pent up purchasing power postponed by government and, as a result, a tidal wave of latent inflation.

The most widely reported measure of price increase is the Consumer Price Index (CPI). But the CPI is an untrustworthy measure of price inflation. First, the Consumer Price Index fails to account for products and services that have been inflated out of existence. For example, when I was a child, our family physician made house calls for $2. (What would a doctor's house call cost today, assuming a doctor would make one?) There were ushers in movie theaters, and even middle-class folk employed domestic help. First-class postage was three cents, and the post office made *four* deliveries each day: two regulars and two specials.

For the most part, these and many other services no longer exist or have deteriorated greatly. Hence, if the measuring rod is not consistent, then CPI comparisons over time cannot be useful.

Another major failing of the CPI is that the goverment must fudge every time there is an

Lawrence M. Parks is President of Systematic Asset Management Corporation, a registered investment adviser.

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improvement in a good or service. For products where innovation is frequent, such as consumer electronics, there is no meaningful way to compare price changes from year to year. Consider, also, the case of a more expensive automobile that is substantially smaller and lighter than its same make and model predecessor. Because the new automobile is "improved," the government reduces the price increase for CPI purposes. How can this methodology be objective?

On top of that, the CPI "market basket" was last reformulated in 1982–1984 and, for budgetary reasons, is not due to be revised until 1996, if then. When I told one of the senior government economists about this article and that it was my contention that inflation was substantially understated, he said: "We would concur with that."

Third, the CPI fails to report products and services whose prices are reduced by government subsidies. Continuing inflation many times causes certain goods and services to become so expensive that they either disappear or their manufacture is arbitraged to foreign countries. Where there are politically connected constituencies and where the production of products or services cannot be transferred out of the country, government many times subsidizes them, thereby reducing the price to consumers and keeping the CPI artificially lower than it would otherwise be.

For example, in some industries, government subsidizes research and development. Even after considerable machinations and subsidies from the state, New York's Blue/Cross Blue/Shield rates were recently increased 25 percent. Depending upon whom one listens to, a subway ride in New York City costs anywhere from $3.50 to $6.00, but the public is charged only $1.25. The rest is subsidized from taxes, whose increases are *not* in the CPI. Clearly, if the true cost of a subway ride was incorporated into the price, the CPI in New York City would be higher than it is.

Because of its historical link to gold, many foreigners still consider the dollar "as good as gold," even though the link is irrevocably broken. As foreign governments, such as Russia, debase their own currencies, rather than switch into gold, foreigners many times switch into the next best thing (in their minds): United States dollars. According to *Grant's Interest Rate Observer*, perhaps as much as 60 percent of the $363 billion in American currency is now circulating in foreign lands.

The drain of dollars from the United States to foreign lands is price *deflationary* in the United States. But if by accident some of these errant countries should get their monetary houses in order, then dollars will flow back to the United States. Again, there is substantial pent-up purchasing power that will someday be spent and, then, latent inflation will become obvious.

Prices Should Be Falling

As industrial processes and productivity improve, prices should *decrease*. In fact, the increasing productivity of the 1980s contributed to the lower rate of price inflation. Decreasing prices improve everybody's living standard. That is the benefit of an advanced economy: higher production of better products available to more people at lower prices. If prices do not decrease because of inflation, then the benefits of productivity increases are not shared. By gerrymandering the CPI and pursuing "price stability," the government obfuscates this fact.

During the past three years, by purchasing Treasury securities, the Federal Reserve has monetized government debt at a high rate, and the most basic measurement of money supply, M1, has increased 37 percent and currency has increased 27 percent. That this has not been reflected in price inflation is due only to the flawed definition of price inflation and the fact that vast amounts have diverted to foreign countries. Inflation is a worldwide phenomenon and has been understated all over the planet. Perhaps long-term interest rates haven't dropped that much for good reason. □

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Will Keynes Ever Die?

"It was here [*The General Theory*] that Keynes invented Keynesianism, disproving the classical laissez-faire theory of the self-adjusting, self-regulating, self-sufficient market . . ."

—Arthur Schlesinger, Jr.
New York Times Book Review
(January 23, 1994)

Keynesian economics should have died long ago. Ludwig von Mises, one of Keynes's chief critics, thought it was already dying out in 1948. "What is going on today in the United States is the final failure of Keynesianism. There is no doubt that the American public is moving away from the Keynesian notions and slogans."[1] Mises, Hayek, and other free-market economists thought *The General Theory* was a "tract of the times," not anything revolutionary or permanent. Hence many conservative economists miscalculated the persistence of Keynesianism.

What's even more strange is that every theoretical tenet of Keynesianism has now been disproven. The process took decades. Arthur Pigou first refuted the "liquidity trap" hypothesis by demonstrating that deflation increases the real value of cash holdings, thus boosting potential demand during a depression. Friedrich Hayek showed that Keynesian economics is based on a "critical error," namely, that economic activity is solely a function of final aggregate demand, when the truth is that employment and production are based on a delicate balance between investment and consumption, where interest rates and entrepreneurship play a vital role. W. H. Hutt offered a devastating attack on the accelerator principle and also demonstrated that a government-induced high-wage policy generates significant joblessness.[2]

Henry Hazlitt proved that cutting wages during a slump, a Keynesian bugaboo, could actually *increase* wage income and end the recession if, as a result of a wage cut, more workers are hired or employees work more hours. Murray Rothbard criticized the multiplier, the stagnation thesis, and demonstrated the inherent instability of inflationary measures by government.

Milton Friedman effectively destroyed the Keynesian argument that monetary policy is not effective during a slump. With painstaking research, he showed that the Federal Reserve allowed the money supply to decline by a third during 1929–32, proving conclusively that government, not the free market, was largely responsible for the Great Depression. Friedman also demolished Keynes's "consumption function," which gave theoretical support for progressive taxation, and raised serious doubts about the Phillips curve.

Robert Higgs, in a brilliantly researched

Mark Skousen is editor of Forecasts & Strategies, *one of the nation's largest financial newsletters, and an economist at Rollins College in Winter Park, Florida. His book,* Dissent on Keynes, *is available from Laissez Faire Books, 800-326-0996.*

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study of the American economy during World War II, showed that deficit spending did not have the beneficial effects commonly believed, and that it was only after the war that genuine prosperity returned.[3]

A Persistent Virus

Yet, despite all these attempts to dislodge the "New Economics," Keynesianism survives. Today in academia there are post-Keynesians, neo-Keynesians, and New Keynesians. Most economists and government leaders in the West still maintain that deficit spending is necessary and beneficial during a recession. The media persists in its mistaken notion that consumer spending drives the economy and efforts to save can be debilitating. (The February 14, 1994, issue of *Business Week* contained this comment on the proposed tax cuts in Japan: "The risk is that consumers, still hung over from the go-go-1980s, will just dump their new money into savings accounts and so torpedo a recovery.") The Old Guard, as represented by the statement made by Arthur Schlesinger, Jr., at the beginning of this article, continues to sway the public into believing that big government is essential to stabilize free-market capitalism. They believe that Keynesianism constitutes a "permanent revolution," as Mark Blaug calls it.

The Stability of the Free-Market Economy

But Schlesinger—and Keynes—have been proven wrong. The best and the brightest of economists have demonstrated quite clearly that an economy can function, thrive, and progress without serious unemployment, inflation, and recession if (a) monetary policy is stable and sound, (b) government's role is fiscally responsible and limited to being a referee, not a player, (c) taxes, controls, and regulations are kept to a minimum and (d) people are free to pursue their own self-interest. This free-market counterrevolution has been most popular in emerging markets in Latin America, Asia, Africa, and Europe, where governments are downsizing, privatizing, cutting taxes, and adopting fiscal and monetary restraint. As a result, they are expanding like never before.

Robert Lucas, Jr., sums it up neatly: "The central lesson of economic theory is the proposition that a competitive economy, left to its own devices, will do a good job of allocating resources."[4]

Unfortunately, the Keynesian mystique is an overwhelming temptation to the seekers of power and the politicians of envy. The foundations of the House That Keynes Built are crumbling, but workers are determined to fix it rather than demolish it and replace it with the House That Mises Built. Therefore, I suspect that Keynesianism will be around for many years to come.

Nevertheless, let us not give up. In this new era of political freedom and global markets, there will never be a better opportunity to promote the virtues of free enterprise and to instruct the coming generation that free markets work and big government doesn't. We will know we have won when the Keynesian Cross is replaced with Hayekian Triangles in Econ 101. □

1. Ludwig von Mises, "Stones into Bread, the Keynesian Miracle," *Planning for Freedom*, 4th ed. (Spring Mills, Pa.: Libertarian Press, 1980 [1952]), p. 62.

2. *Out of Work*, by Richard K. Vedder and Lowell E. Gallaway (New York: Holmes & Meier, 1993), confirms Hutt's thesis in the Great Depression and beyond: Minimum wages, legal privileges for unions, civil rights legislation, unemployment compensation, and welfare have all played significant roles in generating unemployment. See also Hans F. Sennholz, *The Politics of Unemployment* (Spring Mills, Pa.: Libertarian Press, 1987).

3. Robert Higgs, "Wartime Prosperity? A Reassessment of the U.S. Economy in the 1940s," *The Journal of Economic History* (March, 1992), pp. 41–60. For a review of all the anti-Keynesian arguments, see my edited volume, *Dissent on Keynes: A Critical Appraisal of Keynesian Economics* (New York: Praeger, 1992).

4. Robert E. Lucas, Jr., "The Death of Keynes," in Halistones, ed., *Viewpoints on Supply-Side Economics* (Richmond: Robert F. Dames, 1982), p. 4.

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A REVIEWER'S
NOTEBOOK

Two World Views

by John Chamberlain

As Eugene Rostow, former dean of the Yale Law School, shows in his book, *Toward Managed Peace* (Yale University Press, New Haven and London, $35.00), we have definitely *had* a foreign policy: It was to fight the Cold War. Stalin, like the Romanov Czars, continued the immemorial policy of trying to bite off more territory. His prey was anything he could pick up, but at Yalta he showed his preference for land that was contiguous to Mother Russia.

With the perspective of a world historian, Rostow reminds us of the origins of current events: The Cold War came to an end with the collapse of Marxism in Russia. Instead of one huge Russia we had ten or twelve smaller Russias from the Ukraine on down. The Contras controlled much of Central America and reached into South America. Chile became a benevolent dictator story. Castro was another such story though not quite so benevolent.

There isn't much point in writing a simplified review of the Rostow book, as long as another book, *Final Warning* (Warner Books, New York, N.Y., $18.95) subtitled "The Legacy of Chernobyl" by Dr. Robert Peter Gale and Thomas Hauser demands attention. Gale was the doctor summoned by Armand Hammer to supervise bone marrow extraction and deposits in victims of the Chernobyl disaster. Chernobyl could have been much worse. It was pure luck that blew the wind around. The Ukraine city of Kiev might have been ruined. Odessa, on the Black Sea, might have been stricken. But Chernobyl operates still. With the prevailing world winds going from west to east, all of the new Russias (the Ukraine, etc.) are in perpetual menace. There must be no more accidents. But there have also been accidents in the Urals, as Gorbachev has intimated.

Together, *Toward a Managed Peace* and *Final Warning*, enable the reader to visualize two opposing worlds; a hopeful harmony, which I can't picture at this moment in history, and a possibly disastrous conclusion to everything alive. □

Making Democracy Work: Civic Traditions in Modern Italy

by Robert D. Putnam

Princeton, N.J.: Princeton University Press • 1993 • 258 pages • $24.95

Reviewed by Ben W. Bolch

It is a rare occurrence when a book appears that is destined to influence the study of the interrelationships of economics and politics for decades to come. *Making Democracy Work* is such a book, one that will no doubt become a classic in the social science literature and should be read by all economists.

In 1970, fifteen new regional governments were created in Italy and were given essentially the same powers and responsibilities.[1] By the 1990s these governments were spending nearly a tenth of Italy's GDP, so that they were quite powerful structures.

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This creation of nearly identical governments offered Putnam the exceedingly rare opportunity to study something that resembles a controlled experiment in the natural sciences. The question Putnam asks about these governments is classically simple: Which of them worked best and why? Clearly there were differences in the Italian regions which contained these governments, especially differences in the history of the people of these regions. Did these differences matter?

Putnam measured the performance of the governments in various ways. Did the people find them comprehensive, reliable, and internally consistent? Did the governments conform to the objectives of their constituents?

What Putnam found was that the successful governments were located in areas where he also found a high degree of "civic tradition." In areas in the south of Italy a powerful Norman kingdom had appeared around the eleventh century A.D. There a ruling tradition was established that, while enlightened in terms of religious toleration and other matters, had an autocratic, top-down structure that promoted state monopolies and other mercantilist sorts of economic arrangements. In certain northern and central parts of Italy, on the other hand, there began to develop at about the same time a tradition of republican government featuring the involvement of large numbers of the members of the society.

The two types of government traditions, vertical in the south and horizontal in the north-central regions, produced very different kinds of civic traditions. The vertical tradition produced the lord, vassal, and serf style of relationship, while the horizontal tradition developed into guild, fraternal, and university relationships.

In the south, disputes tended to be settled by godfather-like figures who, in order to maintain their power, were not above causing trouble among people so that they could later be of use in settling the dispute. In the north-central regions, people tended to form mutual aid societies and other spontaneous kinds of organizations that promoted mutual trust and a team spirit for the solution of economic and social problems. Thus it is no accident that the banking community grew up around Florence in the north, comments Putnam, for the very word credit derives from *credere*, "to believe." It is also no accident that the Mafia emerged as dominant in the south. However, the really striking economic difference between these regions did not come until the time of the Industrial Revolution, which took hold in the north-central regions of Italy and still languishes in the south. It is interesting to note that the civic differences between the regions remained more stable than the economic differences. While the civic regions became wealthier they also remained steadfastly civic. In Putnam's words: "Like a powerful magnetic field, civic conditions seem gradually but inexorably to have brought socioeconomic conditions into alignment, so that by the 1970s socioeconomic modernity is very closely correlated with the civic community. . . . In other words, perhaps civics helps to explain economics, rather than the reverse" (pp. 153–4).

Interestingly enough, Putnam finds that organized religion, at least in Catholic Italy, is mainly an alternative to the civic community: the more people take part in religious activities the less they take part in government. Along similar lines, of course, Max Weber in his *The Protestant Ethic and the Spirit of Capitalism* (1904) felt that Catholicism was less conducive to business success than were certain forms of Protestantism. Yet, it may not be Protestantism versus Catholicism that is at issue here, but once again the vertical structure of the Church system. Historian Paul Johnson writes in his *History of Christianity* (pp. 313 ff.) that entrepreneurs have historically been put off by highly structured Christianity of any kind and have tended to favor more loosely structured "primitive" churches or even solitary worship.

Putnam's work should demonstrate to economists something that they have long suspected: economic development is *path dependent*. It matters a great deal how we got where we are. And, while only the

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radical fringe of the economics profession believes otherwise, this work makes it crystal clear that certain cultures and governments are more supportive of economic growth than others. In particular, the dangers are evident of replacing the decentralized government given to us by the founders of this Republic with a "more efficient" vertical structure. Further, since the interrelationships between the economy and government are glacial in their historic movement, Putnam's work suggests that we should abandon any hope of quick cultural "fixes" in less developed areas and recognize as well that pro-growth cultures can be slowly eroded in ways that will become perceptible perhaps only centuries later. The importance of these findings for the battles of the culture wars yet to be fought is immense. □

Ben Bolch is Robert McCallum Professor of Economics and Business Administration, Rhodes College, Memphis, Tennessee.

1. Putnam actually studied twenty governments, five of which had been created somewhat earlier. However, all were close enough in structure to be included in the comparative work.

What Everyone Should Know About Economics and Prosperity

by James D. Gwartney and Richard L. Stroup

Mackinac Center for Public Policy, 119 Ashman Street, P. O. Box 568, Midland, MI 48640 • 1993 • 120 pages • $5.00 paper

Reviewed by John Attarian

Even economists can lose sight of basic principles in the complexities of modern economics. More ominously, economic illiteracy is endemic among the general public. Fortunately, Professors Gwartney and Stroup have produced a very clear, crisp primer which will help everyone keep basic economic ideas straight.

They begin by explaining ten fundamental ideas: (1) incentives matter; (2) free lunches don't exist; (3) voluntary exchange promotes economic progress; (4) so does lowering transaction costs; (5) increasing real output increases real income; (6) growth rests on skills, technology, capital and organization; (7) income is earned by meeting others' needs; (8) profits steer businesses to productive activity; (9) markets harmonize individual and social interests; and (10) secondary and long-term effects must be kept in mind.

Hence economic progress rests on private ownership, free exchange, competition, efficient capital markets, stable money, low taxes, and free trade. A government that ensures them will preside over prosperity. To wreck an economy, it need only do the opposite. Gwartney and Stroup illustrate this with data giving international comparisons for real interest rates, inflation, marginal tax rates, tariffs, and economic growth.

What then is the economic role of government? The authors sort it out admirably. Government can help by protecting life, liberty, and property, and providing certain public goods. It is, however, capable of great mischief. Constitutional rules are vital to prevent deficits and special-interest governance. Substituting political decisions for market ones, central planning turns in inferior results. Income redistribution costs more than the intended beneficiaries gain. Worse, when government helps some people at the expense of others, "resources will move away from production and toward plunder." Hear, hear.

Straightforward without being simpleminded, the book is a master clarifier. An analogy illuminates the economic disruption caused by inflation: "money is to an economy what language is to communication. Without words that have clearly defined meanings to both the speaker and the listener, communication is impossible." On the economic significance of government protection of life, liberty, and property: "Simply put, this protection provides citizens with assurance that if they sow, they will be permitted to reap. When this is true, people will sow and reap abundantly."

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They offer a "positive program for prosperity": protection of private property, voluntary exchange, and free trade; requiring Congressional supermajorities to spend, run deficits, and mandate expenditures by states or businesses; and committing the Federal Reserve to a sound dollar and price stability. "It is limited government, not majority rule, that is the key to economic progress."

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John Attarian is a freelance writer in Ann Arbor, Michigan with a Ph.D. in economics, and an Adjunct Scholar with the Midland, Michigan-based Mackinac Center for Public Policy.

Taking the Environment Seriously

Edited by Roger E. Meiners and Bruce Yandle

Rowman & Littlefield, 1993 • 270 pages • $42.50

Reviewed by Jonathan H. Adler

In 1994, the United States will spend approximately $150 billion on environmental protection and there will be precious little to show for it. Certainly the staffing at environmental agencies will increase, as will the employment of green lawyers and consultants. Bureaucratic paperwork also will continue to grow at an exponential—and dare one say unsustainable—rate. Nevertheless, the countless dollars, opportunities and hours spent to comply with America's environmental laws will yield marginal environmental benefits. Something is very wrong with the conventional approach to environmental policy.

Many experts would counsel that the profligate waste in today's ecological efforts results from too much enthusiasm. In this view, American society has collectively taken the threats posed to the environment all too seriously. There is truth in this statement, insofar as humans have overestimated the likelihood of ecological catastrophe resulting from the growth of civilization. However, before turning our backs on the issue of ecology, we should consider a second opinion. Perhaps, as Roger Meiners and Bruce Yandle suggest in their new volume, we have failed to take the environment seriously enough.

The essays in *Taking the Environment Seriously* make the case that the dominant regulatory approach to environmental issues should be re-examined by those who recognize the onus of existing environmental rules, as well as those with an abiding interest in conserving the natural world. Conventional regulatory efforts "relate to production inputs. None focus directly on the environment itself," note Meiners and Yandle in their preface. Indeed, modern policy experts have been deluded in thinking that environmental results can be adequately achieved through properly designed government fiats, and have been oblivious to the failings inherent in their approach.

Those essays that focus on the failures of existing government policies may be old-hat to those enthralled by the minutiae of environmental policy—for those less familiar with the subject they should provide a rude awakening. The book opens with Robert Nelson's overview of America's failing environmental programs and their histories. David Riggs discusses acid rain, illustrating how utilities are being forced to invest millions purchasing emission-control equipment that is unlikely to produce tangible environmental benefits. Indeed, the most comprehensive environmental study ever conducted could find scant evidence that acid precipitation was causing much of a problem at all. Efficiency-minded economists may marvel at the cost-effective use of tradeable emission permits to achieve the mandated emission reductions. However, Riggs reminds the reader that the more important question is whether one should promote the undertaking at all. Enacting "efficient" means to achieve unworthy ends is hardly something to crow about.

Richard L. Stroup and Jane S. Shaw, in their chapter, further catalog the ecological harms imposed by the federal government, from the mismanagement of public range-

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lands and national parks to the perverse subsidies for the destruction of wetlands. After reading of the costs to be imposed by the cleanup of hazardous wastes at federal facilities—as much as $250 *billion*—one can easily conclude that the federal government is environmental enemy number one. This stands in contrast to private environmental success stories, such as the use of property rights to protect marine resources—the subject of the chapter by Terry L. Anderson and Donald R. Leal.

If the federal government is mediocre at protecting environmental values, and spends much of its time inflicting ecological damage, one may ask whether the federal government should be engaged in environmental policy at all. The common law was premised on the protection of persons and their properties and, as a result, was often used to prevent what is now considered environmental harm. Polluters were not guilty of despoiling "public" water or lands, rather their crime was the violation of the rights of others. In their chapter "Clean Water Legislation: Reauthorize or Repeal?" Meiners and Yandle note that "The common law relies upon individuals seeking protection of their rights, not on group lobbying before Congress." This not only curtails efforts to politically impose ecological asceticism, but in some cases "the common law often sets standards far tougher than those set by statutes." Under common law protections, no political entity could unilaterally impose a pollution easement upon private lands. From this standpoint, it seems that the best a government could do is to transfer all that is common into private hands.

The most thought-provoking essay in *Taking the Environment Seriously* is "Economics, Ethics, and Ecology" by Paul Heyne. Heyne critiques not only the misguided ecological crusades of left-leaning environmentalists, but also the economist's obsession with efficiency. As Heyne observes, "There is no such thing as *technical* efficiency, an efficiency that is independent of subjective evaluations." Thus when the economist presents the environmentalist

with a more "efficient" means of achieving environmental goals, such as through transferable "rights to pollute," the economist is missing the point. Environmentalism embraces what Lon L. Fuller termed a "morality of aspiration"—an open-ended pursuit of environmental improvement. From this standpoint, efficiency is nothing to celebrate, indeed an environmentalist may find it to be something to condemn "insofar as it pushes . . . pollution issues lower down on the political agenda."

Heyne finds principled opposition to the conventional environmental agenda not in neo-classical economics, but in a traditional standard of justice that emphasizes individual rights and the rule of law. This approach will not only facilitate a free political order, it will also allow for the pursuit of many goals, environmental and otherwise; "A regime of clear and stable property rights, as it turns out, will be supportive of both efficiency and justice." Indeed, by protecting rights and the rule of law, "efficiency will largely take care of itself." The alternative of statist intervention in all facets of life—whether for the environment or any other end—will fail on both counts. As Heyne astutely observes, "the command-and-control approach will almost inevitably substitute arbitrary decisions for the rule of law." Moreover: "Allowing environmental regulations to be shaped by a political process that is dominated by special interests is another ethically indefensible procedure." The reality of both failings are amply demonstrated in the balance of the book.

Free market advocates are often branded "anti-environmentalists" for their seeming

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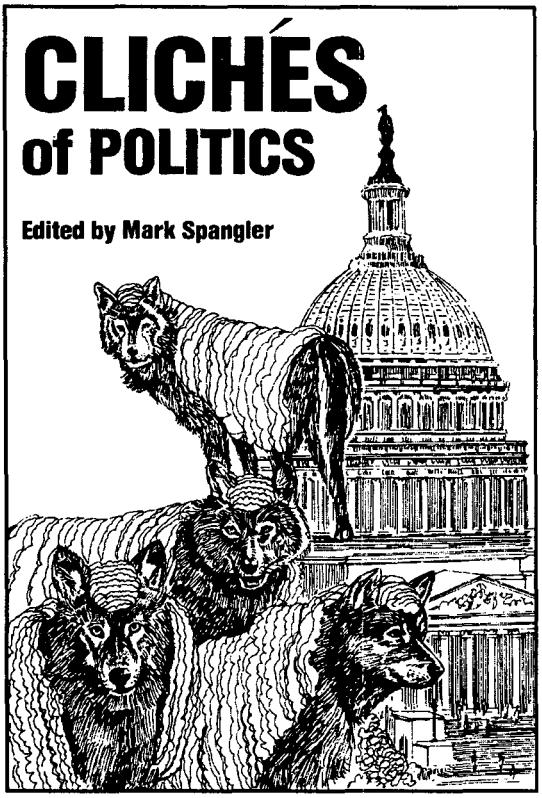
indifference to environmental harms. To most self-proclaimed environmentalists, fealty to free market ideologies will end in ecological—if not total—devastation. Yet, as this volume suggests, perhaps it is the modern environmentalist whose outlook will lead to ruin. As Heyne concludes, "When we take the *whole* environment seriously, we will acknowledge that our primary moral obligations are to respect the persons, the liberties, and the rights of those among whom we live. After all, these are the people upon whose cooperation we must ultimately rely, whether it is to 'make a living,' to 'save the earth,' or to see the realization of any other of our larger aspirations."

Jonathan H. Adler is Associate Director of Environmental Studies at the Competitive Enterprise Institute in Washington, D.C.



Political intervention attracts support in subtle and alluring ways. Today's politicians and their constituents at least pay lip service to freedom and free enterprise. Government action is advocated only to "fix" perceived flaws in the market economy, and public spending is proposed merely to "compensate" for deficiencies in the private sector. Such political solutions, however plausible and well intended, invariably lead to unintended consequences. They are like wolves in sheep's clothing—benign on the outside, but treacherous underneath. *Clichés of Politics* presents lively, concise, pro-freedom responses to 83 common interventionist catch-phrases, including:

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